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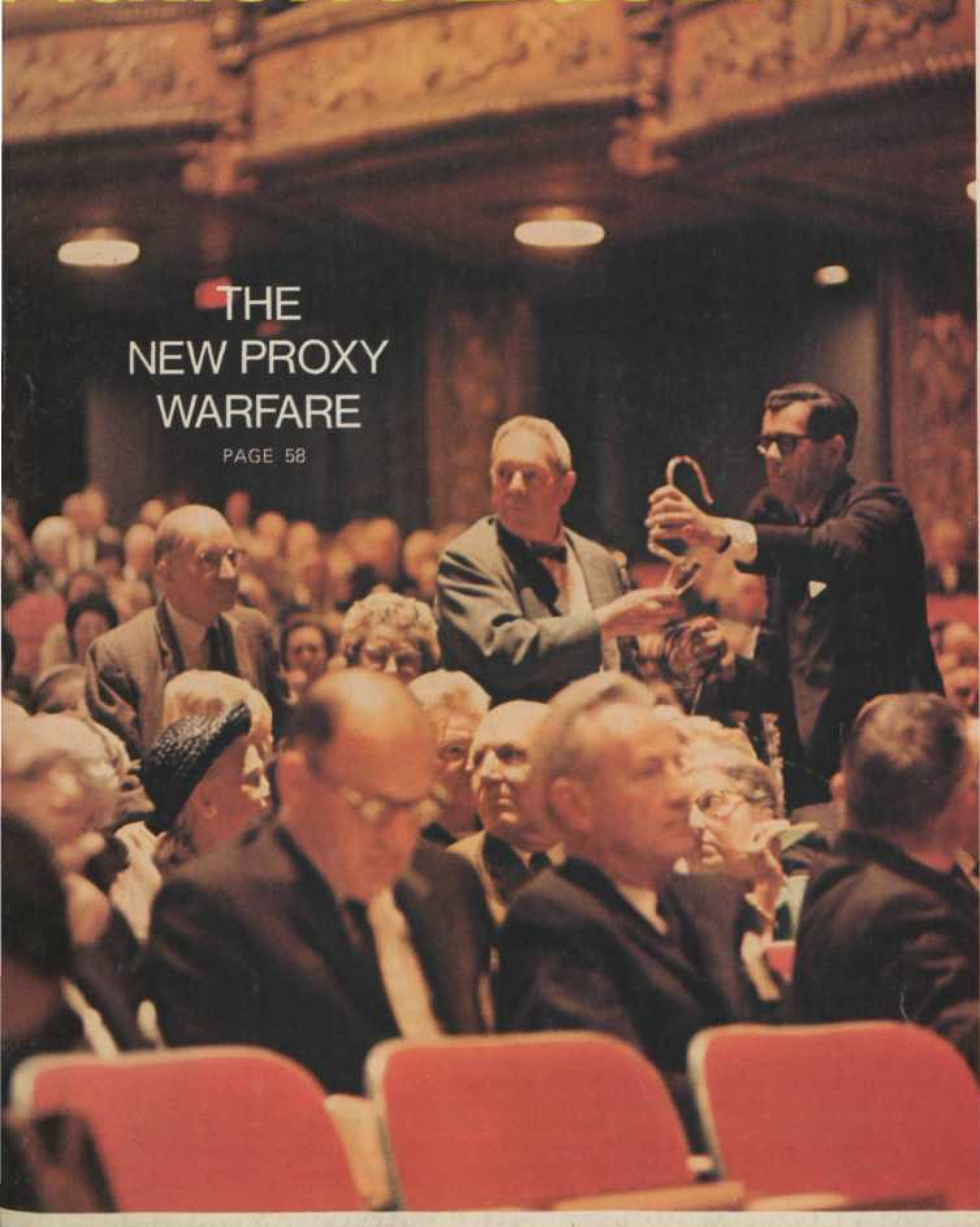
AUGUST 1971

Nation's Business



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PAGE 58

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Nation's Business

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Nation's Business is available by subscription only. **Postmaster:** please send form 3579 to 1615 H Street N.W., Washington, D.C. 20006.
Editorial Headquarters—1615 H Street N.W., Washington, D.C. 20006. **Circulation Headquarters**—1615 H Street N.W., Washington, D.C. 20006. **Advertising Headquarters**—711 Third Avenue, New York, N.Y. 10017. **Atlanta:** James M. Yandle, 3376 Peachtree Road N.E.; **Chicago:** Herbert F. Ohmeis Jr., 33 North Dearborn Street; **Cleveland:** Gerald A. Warren, 1046 Hanna Building; **Detroit:** Robert H. Gotshall, 615 Fisher Building; **Houston:** McKinley Rhodes Jr., 2990 Richmond Avenue; **Philadelphia:** Herman C. Sturm, 1034 Suburban Station Building; **San Francisco:** Hugh Reynolds, 605 Market Street; **Los Angeles:** Duncan Scott & Marshall, Inc., 1830 West Eighth Street.

VOLUME 59 | NUMBER 8 | AUGUST 1971
PUBLISHED IN WASHINGTON, D. C., BY THE CHAMBER OF COMMERCE OF THE UNITED STATES, THE NATIONAL FEDERATION OF ORGANIZATIONS REPRESENTING MORE THAN FIVE MILLION BUSINESS AND PROFESSIONAL PEOPLE AND COMPANIES.

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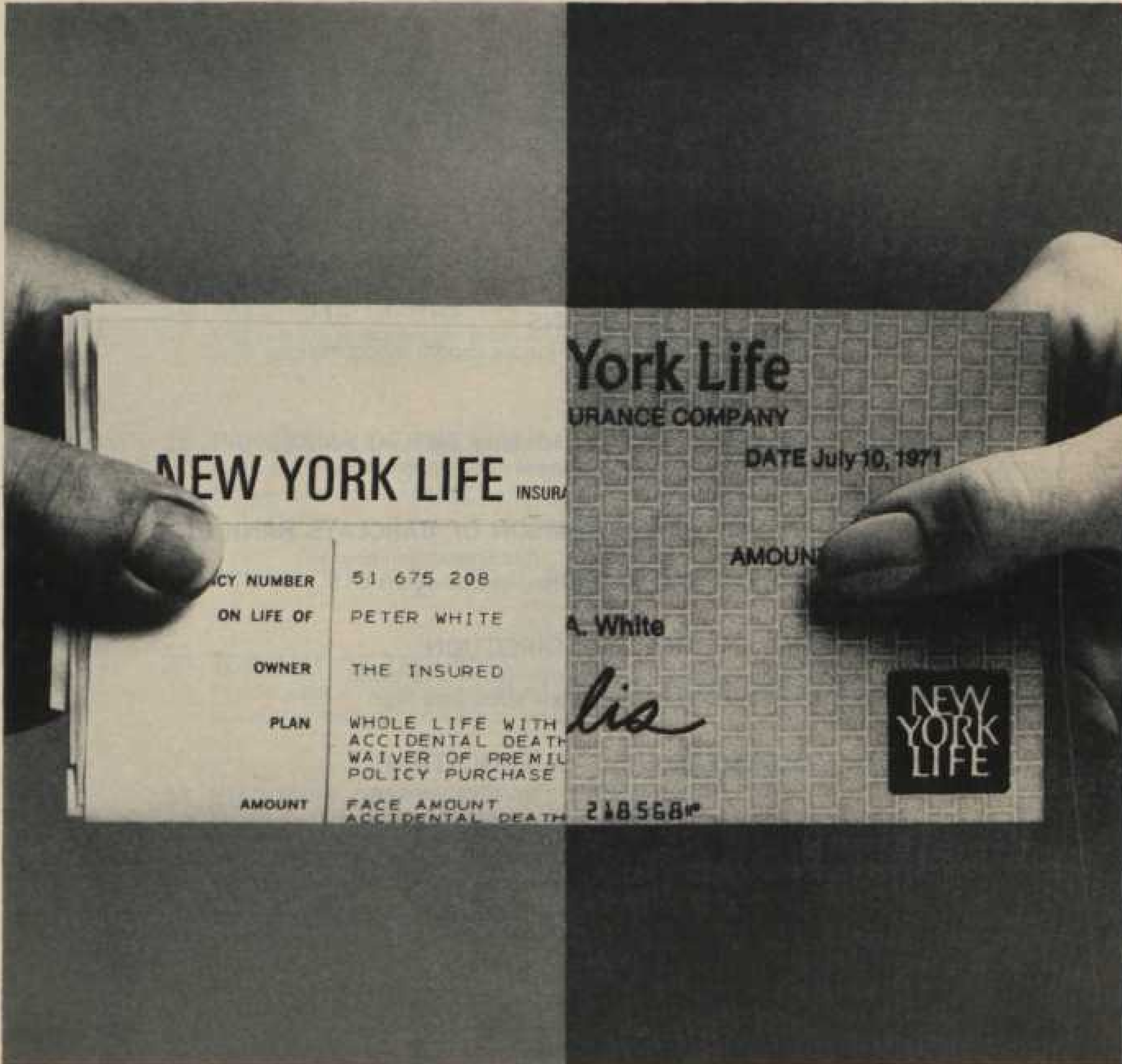
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Memo From the Editor

Nation's Business • Published by the Chamber of Commerce of the United States • 1615 H Street N.W., Washington, D. C. 20006

Each month you read in *Nation's Business* about some of the most important issues our country faces. Many of you write us your questions and comments and we try to answer you.

But we recognize that this can never be as satisfying as person-to-person conversation.

So from Oct. 25 to Nov. 12 you'll have a chance to hear real, live discussions of the developments affecting you as a businessman and to ask your questions, face-to-face.

The opportunity will come at 15 meetings in 15 cities during that time when the Chamber of Commerce of the United States will send a team of experts around the country.

If you're new with *Nation's Business* or the National Chamber, the name of this project, "aircade," may be new to you. It's a coined word signifying that the team flies from city to city to meet with you. The aircade originated 14 years ago and continued for 10 years. It's been suspended for four, but is being brought back, as they say in show business, "by popular demand."

You can gain an edge on your competitors by going to the nearest meeting and getting information about the things that affect you. A more complete explanation is on page 64.

• • •

Speaking of competition, some of you may be troubled by the flow of Japanese products into this country. Many American businessmen feel the Japanese are not playing fair.

I think you will be interested in a presentation of the Japanese position starting on page 28. It's written by the head of the Keidanren, which is the most prestigious business organization in Japan—like the National Chamber here.

These two organizations recently sponsored a conference in Washington at which leading businessmen of both countries discussed the problems between and common to the countries very openly, and sometimes even bluntly.

This was the eighth such conference over the past 10 years. They already have led to a greater understanding and future conferences hopefully will help steer a course toward solutions.

Even the physical arrangements for such a top-level meeting are a challenge. The Hall of Flags in the National Chamber building looked something like the United Nations during the conference (see photo). Simultaneous interpretation let each participant hear the others in his own language.

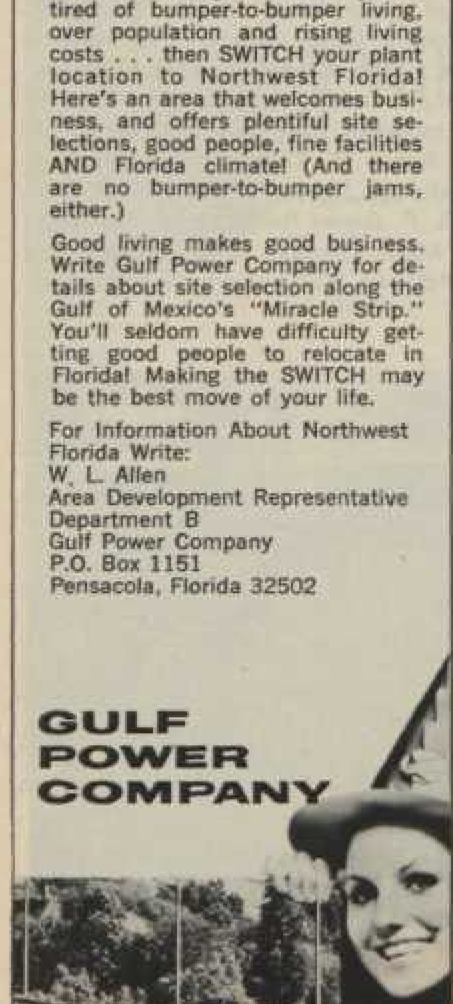
United States business executives who came were: Archie K. Davis, Wachovia Bank and Trust, head of the U. S. delegation; Russell Baker, Baker & McKenzie; Arch N. Booth, National Chamber; Robert E. Brooker, Marcor, Inc., and Montgomery Ward; Ely R. Callaway Jr., Burlington Industries; Walker L. Cisler, Detroit Edison; A. W. Clausen, Bank of America; W. B. Cleveland, Esso Eastern; Ernest de la Ossa, Foremost Foods; Orville L. Freeman, Business International; Carl A. Gerstacker, Dow Chemical; Daniel L. Goldy, International Systems & Controls; W. L. H. Griffin, Brown Shoe; N. E. Halaby, Pan American; Richard D. Hill, First National Bank of Boston; Robert S. Ingersoll, Borg-Warner; Donald M. Kendall, Pepsico; James R. Kennedy, Celanese; A. Carl Kotchian, Lockheed; James A. Linen, Time, Inc.; William S. Lowe, A. P. Green Refractories; Ian MacGregor, American Metal Climax; C. B. McCoy, Du Pont; George C. McGhee, BCIU; Andrew N. Overby,

KENI PHOTO

First Boston Corp.; John T. Pierson Jr., Vendo; Simon Ramo, TRW; John E. Reeves, Reeves Brothers; John J. Roberts, American International Underwriters; C. W. Robinson, Marcona; James M. Roche, General Motors; Mark Shepherd Jr., Texas Instruments; F. Ritter Shumway, Sybron; Lynn A. Townsend, Chrysler; M. P. Venema, Universal Oil; C. William Verity Jr., Armco; J. M. Voss, Caltex; Ralph A. Weller, Otis Elevator; and Joseph S. Wright, Zenith.

Y'all come back now.

Jack Wooldridge



Letters

℞ for Permanent Relief

• We have the following comments on your article "Lifelines for Import Victims" [June].

All the types of assistance for business you mention become just temporary relief, by subsidy or legislation, against the *result* of our cracking economy. For permanent relief, action must be taken against the *cause*, which is the continuing escalation of wages.

Started by sit-down strikes in the ea·ly '30s, this spiral of inciting wage greed has brought us to our knees.

We have recommended to top Washington and Sacramento officials that they make unions nonprofit and have genuine free elections, but to date have found none brave enough to take this step.

Our small instrument firm had over $1 million in sales in 1969, with 90 per cent in Canada. In February, 1970, these customers assured us of larger orders, but in March a Japanese supplier took over the entire sales. None of the measures noted in your article have any bearing on Canadian sales, but the effect was just as severe on us!

We want no part in sanctions against any foreign firms, nor in forcing fellow Americans to subsidize us. The placement of extra duties is not in the interest of our economy, as a counterduty by Canada or others would stop our export sales and put out of jobs many U. S. salesmen selling imports.

Let's get some action against the *cause* of our trouble.

V. L. WESTBERG
President
Westberg Manufacturing Co.
Sonoma, Calif.

Reagan on Buckley

• Being a friend of Bill Buckley, as well as a fan, I enjoyed his interview in your magazine very much ["William F. Buckley Jr. Talks About Compulsory Unionism," June].

I don't know how his suit is going to come out, but he is going to give AFTRA fits before he's through.

RONALD REAGAN
Governor
State of California

• I really liked the William F. Buckley Jr. article. Having had the same type experience in 1962 with the machinists' union, I can appreciate his objections and agree with them 100 per cent.

RICHARD SKOGLUND
Owner
California Air Radio
Upland, Calif.

Hiring ex-addicts

• In his article, "Our Most Dangerous Epidemic" [July], Rep. Robert H. Steele challenges government, industry and labor to fight the national

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Letters

continued

emergency of heroin addiction, and states that despite increased awareness in industry, the newness of the problem makes it difficult to deal with.

While this may generally be true, there are, of course, exceptions. On May 3, the Kemper Insurance Group became the first company in the country to publicly announce a policy of nondiscrimination in the employment of rehabilitated drug abusers.

Our company believes that drug abuse is similar to alcoholism in that both are behavioral illnesses that can be treated. Consequently, we now approach drug abuse much as we did alcoholism when, in 1961, we pioneered the stand that industry benefits more by helping rather than by firing the alcoholic.

We are under no illusion that our firm is large enough to absorb large numbers of the total population of recovered addicts who are ready and able to work. However, we believe we can demonstrate the practicality of this approach. And hopefully many other firms will adopt similar approaches, utilizing our experience.

A policy of nondiscrimination in the employment of former drug abusers can help break the cycle of unemployment and subsequent return to addiction. Cooperation of other members of industry and close working relationships with successful rehabilitation programs such as the Illinois Drug Abuse Program are needed before the success of such a policy can be realized.

JOHN I. KEAY JR.
Public Relations Supervisor
Kemper Insurance
Chicago, Ill.

• Rep. Steele fails to recognize the degree of abuse of amphetamines and barbiturates. How about some concern over the abuse of these drugs, and some investigation into their channels of distribution, both licit and illicit?

EMILY ANDREWS
Geneva, N.Y.

Dim view of Long view

• I tend to agree with the majority of the points Sen. Russell B. Long made regarding welfare costs in the interview in your May issue ["Welfare Costs: Sky-High or Down to Earth?"]. But his comments regarding poverty lawyers give me cause for alarm. It seems to me that what he is implying in his criticisms of their actions is that the government has some rational identity independent of the citizenry in general. He seems to be objecting to the fact that these lawyers have won cases, some of them at as high a level as the Supreme Court, utilizing the selfsame laws which Sen. Long has been elected to create.

The Senator's statement that "nobody in his right mind would hire a lawyer to file a lawsuit against himself" seems to me to substantiate a suspicion that Sen. Long believes the government exists for some reason other than to serve the people. I find this to be exceptionally disturbing.

CHARLES W. PARRY
Upper St. Clair, Pa.

• I am concerned about the destruction of our national heritage by the ignorant park planners and school children who are not taught to respect the beauty of nature.

We could put all the people who are on welfare to work taking care of these places, instead of paying them to do nothing.

LEO A. M BREDIGER
Florist and Nurseryman
Brediger Greenhouses & Nurseries
Massillon, Ohio

Dad—pro and con

• I read with great interest the article "Coming in With Dad" [June].

Isn't it curious that when the kids refuse to "come in with Dad" they are called irresponsible, ungrateful and antisocial; but when Dad won't have them he is commended for his judicious, wise and public-spirited attitude?

No wonder there is a "generation gap." But one begins to wonder just who is responsible for it.

EARL CARTER
Director
The Carter Gallery
Los Angeles, Calif.

• The comments in response to your survey were interesting, and make one realize how many factors are brought into play when the subject of nepotism is considered.

MARCUS R. TOWER
Vice Chairman
National Bank of Tulsa
Tulsa, Okla.

Is it too late?

• Re your June editorial ["Blowing


There's a way to spot breakdowns before they happen. Better look into it.
When a big shovel dies, satellite equipment grinds to a halt. Schedules get thrown out of whack. Profits nosedive.
That's why Mobil developed EM/PA for contractors. EM/PA means Engine Maintenance through Progressive Analysis. It can tell if an engine's rings are sloppy, if bearings are wearing, if coolant is leaking into the crankcase. It can even spot a faulty fuel pump or a dirty air cleaner. And the operator is warned promptly, so he can plan his maintenance.
This means fewer breakdowns, of course, which means real money saved. And EM/PA doesn't cost Mobil customers a dime.
Since engines in top condition use less oil, we'll sell less oil. In fact, wherever oil is used, we can probably show you how to save money by using less of it. But as long as we keep selling less and less to more and more people, you won't find us complaining.
Mobil Oil Corporation, 150 East 42nd Street, New York, New York 10017.
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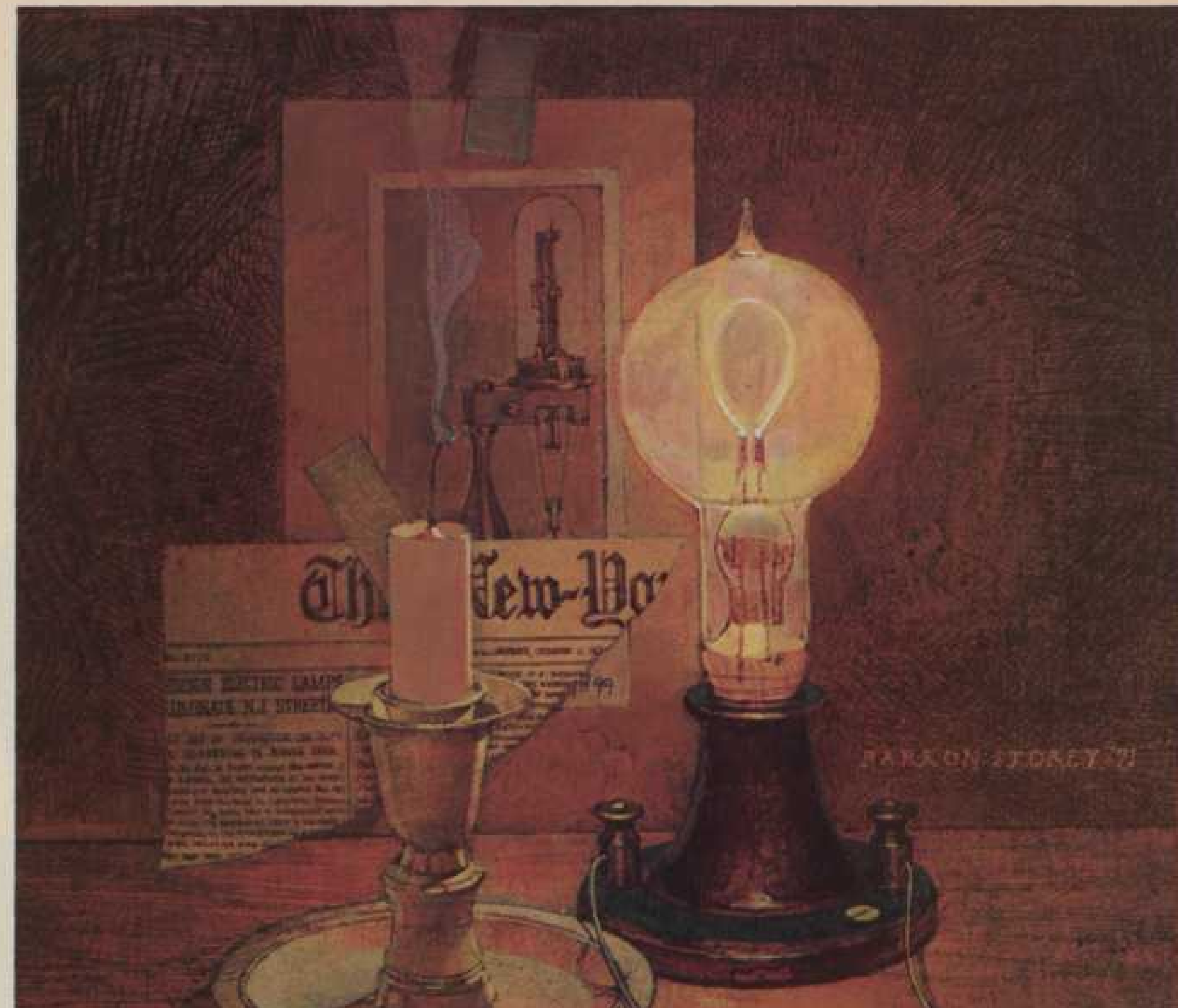

It"], it is time someone blew the whistle! You said more in those few short paragraphs than some editorials I have read that covered pages.

However, I think probably a good follow-up would be, "Is it too late?"

Are the voters so conditioned that they will only elect those who will spend and spend, with little or no regard for those who must supply what is spent?

A. J. HUTSON
President
Piper Trash, Inc.
Evansville, Ind.

• In "Blowing It," your editorial concerning government spending, the "fallacy of composition" was evidenced. What is true of households is not necessarily true of the government.

I am not disagreeing with your contention that "deficit" spending does not have adverse effects such as the disparity of income distribution resulting from the rising interest burden.

But it should be understood by your readers that modern economic "expansionary" fiscal policy dictates increased government spending. Moreover, it dictates combating unemployment, which plagues our society, without further aggravating inflation if possible.

THOMAS R. BERRY
Instructor of Economics
Floyd Junior College
Rome, Ga.

"Teaching machine" scores

• As the producers of C.I.T.'s safe driving program, may we offer a couple of comments on John Costello's very fine presentation of the facts in "Executive Trends" ["Saving Lives—and Dollars," May].

The 115-page test which is mentioned is actually a 223-frame programed instruction manual. This is the linear "teaching machine" developed by B. F. Skinner at Harvard. The programed instruction technique has been responsible for some very remarkable results in the past 20 years. To our knowledge, however, this application is the first which has actually produced changes in the way people act and react measured on such a large scale.

The second point is this: Mr. Costello's summary of the program calls C.I.T.'s efforts a two-part program. Formally, perhaps it was. However, there was a third part to the effort, as important to the results as the programed instruction or the follow-up procedures on each accident. This was the internal publicity given to the program within C.I.T. Frankly, if it hadn't been for this campaign, the results would have been zilch.

STEWART A. WASHBURN, CMC
Vice President
Porter Henry & Co., Inc.
New York, N. Y.

EDP and communicating

• Your "Executive Trends" item [May] on communication between executives and their electronic data processing departments was too brief to mention all the problems involved.

Executives can and do communicate effectively with EDP departments when they take the time to attend short courses that are offered. But I believe it would be worthwhile mentioning that communication is a two-way street. The EDP department manager should have a particular discipline before he is ready to manage the department.

An EDP manager having experience in accounting, engineering or similar positions in related industries can communicate in the same language as the top management.

EARL GROVES
Systems Analyst
Cook Electric Co.
Des Plaines, Ill.

Message for management

• Re "Industry's Untold Multibillion-Dollar Story" [May]. We can hope that management gets the message. You have done your part in presenting the argument for effective communication about employees' extra benefits in a logical and humorous way.

KENNETH E. FELTMAN
Consultant
Hewitt Associates
Libertyville, Ill.

Saving grace

• My congratulations and warmest thanks for the beautiful story, "Saving Old Buildings—and Money, Too" [June]. It is really very well done and makes all the points that we always try to make in emphasizing that preservation *is* good business.

JAMES BIDDLE
President
National Trust for Historic Preservation
Washington, D. C.

Executive Trends

BY JOHN COSTELLO
Associate Editor

- **Beyond the slide rule**
- **Truth in job-hunting**
- **Mover's blues**
- **Stirring up creativity**

Management and the engineer

When he hits 30, an engineer will need more than a slide rule.

That's what the latest survey by the Engineers Joint Council suggests.

"We find two out of three engineers wind up in management," a council spokesman says.

"They're at all managerial levels, from the top down to small teams or units."

Here's the breakdown from the council's "A Profile of the Engineering Profession":

Supervisory responsibility	Per cent
General management of organization	10
Management of major department, division or program	20
Supervisor of project or section	22
Supervisor of team or unit	12

"Only about 36 per cent have no direct supervisory duties at all," the council points out. "But half of these—18 per cent—have at least some indirect or staff supervisory duties.

"These are generally younger engineers, in the 25-to-29-year age bracket.

"Engineers on the lower rung of the management ladder—men in charge of small units or teams—cluster around the 30-to-34 age bracket.

"On the next higher step, you find mostly the 40-to-44 age group.

"Those in the two top echelons—like those running major departments or in general management—tend to be between 45 and 49."

Isn't this a serious leakage from the profession?

"We don't think so," a council spokesman counters.

"Really, an engineer is a man who must manage human or natural resources to get his job done. Especially today.

"Projects are so complicated that an engineer can't just sit at his desk and run them successfully."

Recipe for the executive resumé

"Some of the most creative writing—outside of expense accounts—goes into resumés," one expert says.

And that can be a bad mistake, he adds.

"Sure, jobs are scarce," says Kurt Einstein, of Kurt Einstein Associates, New York executive search firm. "But it's a mistake for an executive to hand-tailor that resumé for a job his experience really doesn't fit."

Mr. Einstein notes that "it's hard to spot a phony resumé. Many former employers will corroborate them—out of a sense of guilt or obligation to the man they let go."

He also cautions that the unqualified executive can work havoc—before he is found out.

Impact on profit and morale can be hefty.

How do you keep from hiring the wrong man?

"It's a perfect example of a stitch in time saving nine," says Mr. Einstein.

"Take pains to insure that he's the right man for the job—just as you'd weigh any other major decision.

"Don't hire in haste and repent at leisure."

When you're making a move

Satisfied with your firm's location?

"If so, that's great," says Rauch & Co., Chicago real estate management specialists.

"But unfortunately, a lot of other companies aren't.

"Every year, nearly one out of seven U. S. companies move headquarters or a major branch office."

Usually, they're happy with the move, the firm finds.

But even the best move, it says, can be costly, time-consuming and a threat to worker morale. One tip Rauch & Co. offers is this:

"Make two priority lists when you consider a new office location. You'll often find that what management wants most—and what the employees want—are quite different."

Here's what a recent survey for O'Hare Plaza, Chicago's largest outlying office complex, showed.

Among management's top priorities were parking, easy access to public transportation and quick commuter service.

But employees had a completely different list. Most important to them were pleasant surroundings and, nearby, reasonably priced restaurants and shopping areas.

Here are some other helpful hints from Rauch & Co.:

1. Plan your move well in advance.

"Most companies," it says, "need at least six months to a year to do it right. Make your timetable flexible, and give one man full responsibility for coordinating the move."

2. Don't skip details.

"Have each department make a check list of what it has to do. For example, you'll have to order new stationery. And you'll have to arrange well in advance to get telephone and electronic equipment installed."

3. Communicate internally.

"Be sure and let employees know you're moving and why. If you don't, the grapevine will—and probably in a way less favorable to you."

4. Communicate externally.

"Your customers, suppliers and your old and new neighbors should know where you're going."

5. Pick a good time.

"Summer is worst. That's when movers are busiest. And the end of any month is the time when their schedules are most crowded."

6. Select good movers.

"Some firms have departments that specialize in moving corporations. Get bids from several."

Getting creative juices to flow

It's not too tough, The Innovation Group says. The best way is pose some

tough questions to your most creative people. Questions, it suggests, like these:

• Is your firm "efficient" or "effective"?

It defines an "efficient" firm as one where all roles and functions are clearly delineated and work together smoothly. By an "effective" firm it means one where all assets, especially human, are fully used.

• Where does the initial idea for a new product or service usually come from?

Top management?
R & D?
Marketing?
Manufacturing?
Outside consultants?
Other?

• Which of the following statements most clearly describes your firm's ability to hire innovative people?

We can get all we want.
We used to get them easily, but not now.
It has always been a problem with us.
We don't need them—they're not important to our success.

• Does your firm use any of these ways to reward executive entrepreneurs?

Salary boosts?
Incentive pay plans?
Venture financing?
Performance bonuses?
Stock options?
Profit-sharing?

What are the right answers?

"None, really," The Innovation Group says. "Or rather, no pat answers. The right answer varies with the circumstances."

The New York-based group is made up of senior executives from firms in high technology fields. Their goal: To improve communications and the free flow of innovative ideas. And they feel that can be done best with executive workshops, like those the group presents for business firms.

Jack Morton, vice president and head of components development and engineering at Bell Telephone Laboratories, tells why the workshops are effective:

"We believe that fellow managers know more than anyone else what will work for their organization.

"One of the best ways for them to organize and develop that knowledge is to get together for a lively discussion of the issues they face daily."

Is it worth the effort?

"I'll say," Mr. Morton asserts. "Building an innovative organization should have top priority for any company that hopes to prosper—or survive—in this decade."

To each his own luggage

A Nevada businessman was headed for the Florida Keys for a few carefree days aboard a friend's yacht.

He flew there by a circuitous route—from Reno to San Francisco, thence to New York, and Miami.

Though he made it, his luggage didn't.

Somewhere along the way, it went astray.

Fortunately, he was a member of International Luggage Registry, a new computerized service that matches missing luggage with owner in record time.

He made a toll-free call to ILR's headquarters in Reno. Within 24 hours, the bags were found in New York and flown to Miami.

Frank N. Bender, president of the new firm, started it because he was fed up with lost luggage.

"At the same time," he says, "you can't blame the trains, airlines or bus companies. They handle millions of bags and some are bound to be misrouted. But, you can't blame the traveler for being peeved, either. He may have items in his luggage that he needs now—and must replace. Same for business firms, only worse. They can lose millions of dollars if data is late as little as a day."

It costs $5 to join ILR for a year. A member gets 15 pressure-sensitized labels, each identified with the owner's number—which is stored permanently in an ILR computer.

If a bag's lost, he reports it to ILR in Reno. There it's matched with lost luggage reports from carriers.

"In some cases," Mr. Bender says, "a bag's found before the owner

Executive Trends

continued

knows it's missing. Luggage handlers look for our labels."

You can get membership blank applications at most Mutual of Omaha's Teletrip counters, at bigger Greyhound Bus Lines terminals, and at ticket windows of many airlines, like American, Eastern and TWA.

ILR labels carry a motto that expresses its general business philosophy: "To Each His Own."

Working hard—and working smart

"The future president leaves behind many hard workers—every time he's promoted."

That illustrates one of the rules of business success, an expert argues.

"What counts," he says, "is not how hard you work—but how smart you work. And working smart means staying mobile."

Author Eugene E. Jennings' book, "Routes to the Executive Suite" [$8.95, see NATION'S BUSINESS Books, page 49] lays down some rules for winning "success chess."

1. Keep the widest set of options. Don't get pegged as a narrow specialist.
2. Latch on to a mobile superior—and become his right-hand man. If he goes up, you'll go with him.
3. Get visibility. If they don't know you're there they'll never find you when a promotion's open.
4. Don't be afraid to nominate yourself. It's nice to be noticed, but don't be overlooked because you're too polite to point—to yourself.
5. If you're stuck, move. Move inside the corporation, if that will best advance your own career. If not, move out.
6. Look on the corporation as a market. It's a place to sell your skills. And some markets will always be better for you than others.
7. Don't let success ruin you.

"All too often, success goes to the executive's head," Mr. Jennings says. Such an executive tends to identify himself as a "natural" in just one business area and this "prevents him from reaching for new and different careers and goals."

PANORAMA of the nation's business

By VERNON LOUVIERE
Associate Editor

Salt Lake City Is on Its Toes

Ballet and business go well together in Salt Lake City.

There is little doubt now that Utah's capital has answered a question posed in 1963: Can a community of its size build and support a first-rate dance company?

Ballet West, which was established that year, provides the positive answer. Last year, it performed for 200,000 people.

Much of Ballet West's support—moral and financial—comes from the business community. The majority of its trustees, as a matter of fact, are businessmen.

Many people are surprised to learn that Salt Lake City (population of the city proper: 176,000) has a resident professional ballet company. It is not surprising to the people of Salt Lake City, however. Back in 1850, when the West was indeed wild and woolly, they had an opera house. Culture runs deep in the Mormon community.

Does Ballet West help business?

Salt Lake City businessmen feel the support they give Ballet West provides dividends for their community and themselves.

The businessmen think so. They feel it improves the morale of employees and helps attract educated, qualified people to their community. As a Ballet West brochure points out:

"It [the ballet] helps channel the interests of young people into a rewarding aesthetic experience, a responsibility that cannot be evaded in the era of growing leisure time. It provides joy for art lovers and employment opportunities for young people who might otherwise have to leave the community. It gives Salt Lake a brighter and livelier image of a moving, thriving, culturally advanced city."

Richard W. Cooper, general manager of Ballet West, told *Nation's Business:*

"We have the complete involvement of the business community in this unique cultural effort. They are behind us 100 per cent."

Last year, the dance company chalked up 20,000 miles in appearances around the country. This summer, it journeyed to Europe and made appearances in six countries. A group of businessmen picked up the $80,000 tab for the overseas trip.

Ballet West is one of the few ballet groups whose dancers are on full-year salaries.

And critics have said the Salt Lake City company is equal to any in the world.

Wiping Out the "Sermon Germ"

General Electric Co. has found that using a "news antibiotic" is one of the best ways to eradicate the "sermon germ," to which many companies succumb when they try to get messages across to their employees.

GE's in-house communicators, the people who put out a wide-ranging assortment of GE employee publications, have launched a program to win greater employee understanding of basic economic issues.

In doing so, the communicators shun preaching, or abstract theory. Instead, they exploit the fact that their readers are used to acquiring knowledge from reading or hearing news of real people involved in real competitive situations.

Says John F. Burlingame, GE vice president responsible for employee relations:

"When we report economics in action—action with which employees can identify themselves—GE employees find it exciting and dramatic. They see much more clearly how meaningful their own work can be to the success of their business."

The GE publications' editors report that facts and appropriate interpretation speak much more effectively than columns of opinion.

"Researchers find that the latter raise psychological barriers in the minds of audiences," Mr. Burlingame explains. "But the real events of orders won or lost, the dramatic stories of individual employees working to meet a production deadline for a specific customer, the human interest experiences of GE employees using company benefit plans, all can lead employees to come to their own valid conclusions on economic truths."

GE calls this the Six-C communication program.

The key words: customers, competition, change, cost, compensation, concern.

continued on next page

Dow Spurs a Factual Approach to Pollution

C. E. Hamilton shows sixth graders that soapy water can be cleansed with paper towels and a simple aerator.

At a school science fair in Midland, Mich., last spring a fifth grader's exhibit proclaimed, "Some say that Dow pollutes the environment. But so do you."

Nearby was a display of commonplace litter of the kind found alongside almost any highway.

In a sense, Dow Chemical Co., which is headquartered in Midland, was responsible for this unsolicited mention of its name.

Dow has introduced into the Michigan school system a lesson plan called "Environmental Involvement" to help students from kindergarten through high school find out for themselves what pollution is all about.

It is the brainchild of Charles E. (Gene) Hamilton, a Dow waste control chemist. The idea came to him after he had appeared before more than a hundred school groups in Michigan in a company-sponsored discussion series on pollution.

"I found that the teachers, more than anyone else, had little grasp of the pollution problem," Mr. Hamilton recalls. "Many were using the doomsday approach. They were convinced that everything was polluted and that's all there was to it."

Mr. Hamilton talked with some teacher friends and all of them agreed it would be useful if they had better guidelines to help their students understand pollution problems. The lesson plan, in essence, is a series of simple experiments—geared to age groups—that can be conducted with inexpensive materials.

"What we are doing with these school youngsters is encouraging them to collect facts and then draw their own conclusions," Mr. Hamilton says. "We want to steer them away from approaching the subject with a fixed opinion and then setting out to collect facts."

Dow sent the lesson plan to a random group of Michigan educators.

"The response was overwhelming," reports Chester E. Otis, director of the company's Ecology Council. "We then printed 5,000 copies and they were snapped up immediately."

If the Michigan pilot program proves successful—and there is every indication it will—the teachers' guides will be distributed throughout the nation.

Insurers Ride Herd on Medical Care Fees

It is a common complaint that the health insurance industry has done little or nothing to combat the rising costs of medical care. Consider the other side of the coin.

A New York surgeon charged a patient \$4,500 for three hip operations. CNA Financial Corp., which held the insurance policy, felt the claim was too high and consulted the New York County Medical Society Review Committee. The committee said the fee was twice the customary charge, and the surgeon agreed to lower it.

CNA saved 80 per cent of \$2,250 and the patient saved 20 per cent.

In another case a Chicago orthopedic surgeon charged \$950 for a knee operation. CNA took this one before the Chicago Medical Society Review Committee and the fee was reduced to \$575.

"By keeping hospital and medical fees at a reasonable level, we can save the patient money directly—his percentage of the total bill—and indirectly, by keeping insurance costs as low as possible," says Marvin Brantman, chairman of the Health Insurance Council of Illinois and cost control coordinator for CNA.

Contrary to a widely held belief, according to Mr. Brantman, most doctors are quite willing to criticize the practices of their colleagues if they feel bills are exorbitant, treatment is unnecessary, or hospital stays are overlong.

"The medical review committees are dedicated to conserving the public's health care dollar," he reports. "They don't want to see a few unreasonable physicians overpaid, either."

CNA figures it saves \$75,000 a year by getting physicians and hospitals to readjust their fees when they appear to be too high.

"Potentially, we may save four to five times more by acting as a deterrent to overcharging," Mr. Brantman says.

Sound Off to the Editor

Full Legal Rights for 18-Year-Olds?

The Twenty-Sixth Amendment, granting full suffrage at age 18, has now been ratified by the required three fourths of the state legislatures, and a new issue is arising in its wake.

Suggestions that we go all the way and provide for complete legal rights at 18 are heard with increasing frequency.

Vermont last April became the first state to make its young people full-fledged citizens when they turn 18. Tennessee has since enacted a similar law.

Youths 18 and over in the two states, whether legal residents or not, now may enter into contracts, buy and sell property in their own names, marry without parental consent, buy liquor legally and sue and be sued. (Vermont, however, has set restrictions, affecting college students principally, on voting by nonresidents.)

In reporting to the Senate on passage of his state's law, Sen. George Aiken (R.-Vt.) said:

"The young people of today are better prepared to take their places in the social, economic and political world than those of us who came before them. . . . They want to share in the responsibilities of citizenship and they are eminently qualified to be regarded as adults in every sense of the word."

But many disagree with that outlook. An 18-year-old just out of high school lacks the maturity and experience needed for adult status, they say.

Multitudes of young people, they argue, have hardly shown any sense of responsibility, or qualification to be regarded as mature Americans, by their participation in campus anarchy and demonstrations designed to disrupt public order, by their use of drugs, and indeed by their rejection of values on which our political system was founded.

What do you think?

Should 18-year-olds be given full legal rights?

Jack Wooldridge, Editor
Nation's Business
1615 H Street N.W.
Washington, D.C. 20006

Should 18-year-olds be given full legal rights? ☐ Yes ☐ No

Comments:..

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....

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Name and title..........................

Company.................................

Now for the Next 25 Years

Think we're better off than we were 25 years ago?

Listen to Edward Studer, president, The Cincinnati Economy Drug Co., Cincinnati, Ohio:

"I believe we are better off in material things, such as modern conveniences. However, our moral standards are lower. Our freedom to move about is hampered due to fear of crime and violence. Medical science has made marvelous strides, yet more people are on dope, tranquilizers and pep pills. More people are drinking. More are divorcing. There is more frustration and less fear of God.

"All this under an affluent society. I believe we are paying a tremendous price for what we are getting. We are no better off."

Do you agree with that No answer to last month's "Sound Off to the Editor" question?

Then listen to Dr. Ronald Carroll, economist with C. R. Wedding & Associates, St. Petersburg, Fla.:

"Never in history has the quality of life—as expressed in the degree to which the largest number of individuals, through their own free efforts and their own free choice, can satisfy to the highest degree their demands for material and spiritual goods and services—been better anywhere than it is in the U. S. A. in the summer of 1971."

Dr. Carroll and other readers answering the "Sound Off" question with a Yes are in the minority. But it is a large minority—well over a third of the responses.

Basically, answers depend on how much weight readers give to different factors. Like Mr. Studer, most of those answering No concede that there has been material progress (though not necessarily in all respects). However, they argue that it has been offset by changes in the way people think and act, and by other developments such as the Viet Nam War, and increasing pollution, unionism and welfarism.

"The majority," writes Arthur H. Gager, president, Fralinger's, Inc., Atlantic City, N. J., "are suffering for the protection of the few. We are helping people instead of making them help themselves. We walk the streets in fear because the law has been rewritten to make it almost impossible to punish criminals. Working has been made a foolish pursuit by government regulations and taxes. The ones who form the thinking of the masses are against our way of life."

Myer Cohen, owner of Princess Anne Hosiery, New York City, says those who "talk about the GNP soaring and business booming forget crime, pollution, the war, corruption, unemployment, drugs. . . . Our integrity as a people has deteriorated."

Says A. J. Martin, owner, A. J. Martin Marble & Granite Works, Vicksburg, Miss.: "I could do with less of the new conveniences in return for more safety and peace of mind. Unions demand unreasonable wages and benefits. Prices go up, voiding wage increases. Taxpayers have a hard time trying to support all those unnecessary bureaucrats, so the wife has to work. Children won't stay at home if Mama is not there. They go out looking for something to do, hence dope and crime."

Warren S. Hastings, president, Bumpa-Tel, Inc., Cape Girardeau, Mo., says "physical health, spiritual health and financial or material assets are necessary to the well-being of an individual, a community or a nation. While we have gained tremendously in two areas, our loss in spiritual health puts us on the verge of bankruptcy in this all-important area. If correction is not made, the deficiency will in time bring bankruptcy in all three areas."

Edwin Houston Jr., broker with Houston Ranch Realty, Boerne, Texas, cites "the little boy who gets into the candy box when his mother and father are away, and eats and eats. His stomach is nauseated, but he goes on eating candy because his eyes are bigger than his stomach, and he gets sick." Our country and technology, adds Mr. Houston, are like the boy and the candy.

Says Robert Aicher, president, Syracuse Instrument Sales Corp., Syracuse, N. Y.: "The decline of self-discipline in our country is appalling. No society can prosper without self-discipline. If it doesn't have it, it will invite discipline by the government—a police state."

In most Yes answers, material progress looms larger than other developments. But it also is frequently argued that our way-of-life headaches aren't as horrific as they're sometimes made out to be.

"I think many problems are blown out of proportion by the vastly improved communications we now have," writes H. Richard Miller, Western regional manager, Edwin Cooper, Inc., Paramount, Calif.

Says H. E. Ennis, sales manager, Flasher Flare Southeast, Inc., Tampa, Fla.: "We must learn to look for the good; if we do, it will be found. Today's youth are the finest ever; the percentage of those who make headlines for misdeeds is minor compared to those who are accomplishing great things. Today's man has been freed from much of the drudgery of physical work. Today's woman, likewise. . . ."

Minter A. Bliss, vice president, Stone & Thomas, Wheeling, W. Va., answers the "Sound Off" query this way:

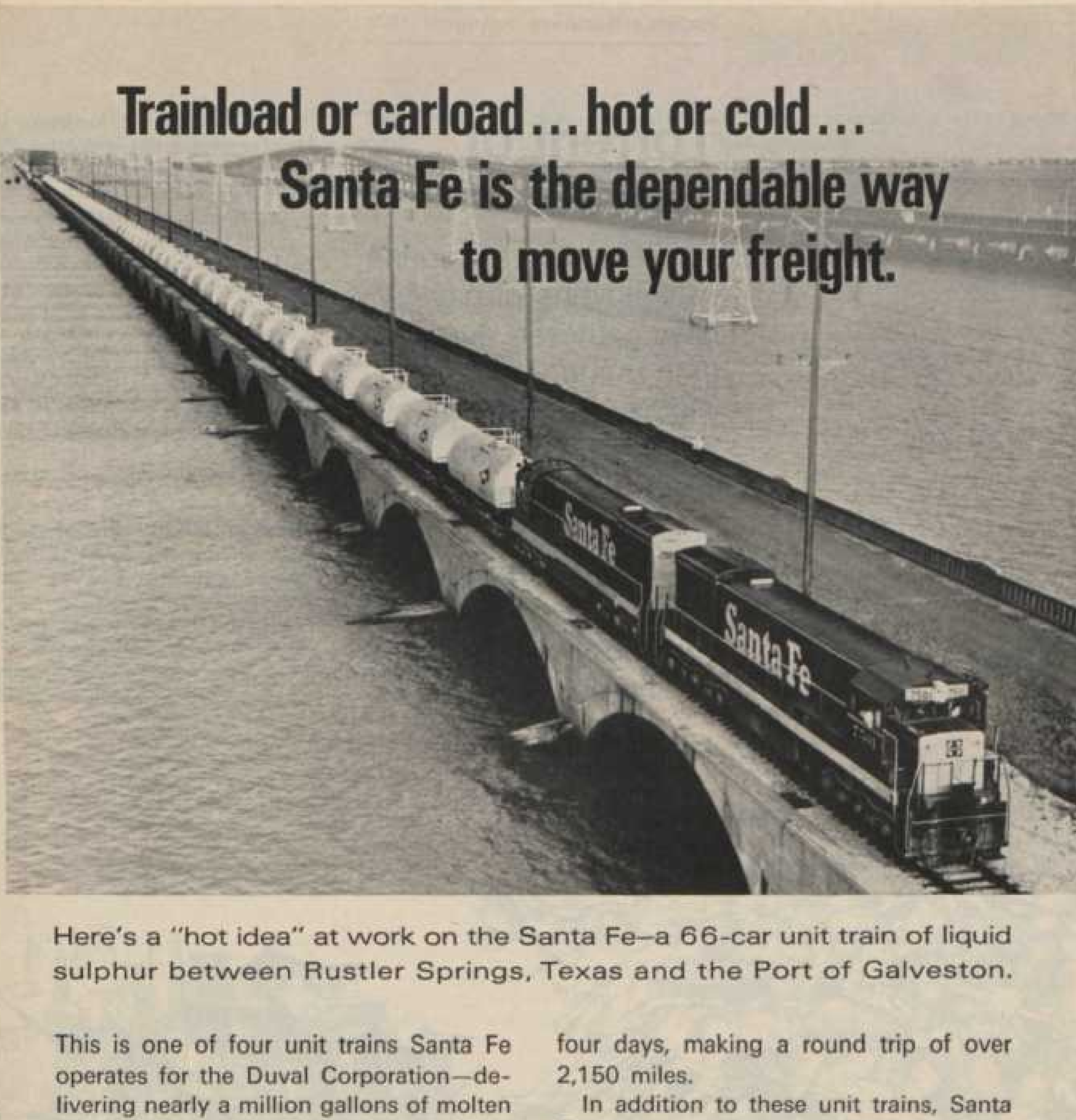
"1. In the light of the GNP, ingenuity in business, advances in travel and medicine, status of minorities, living conditions, etc., Yes!

"2. In the light of the unrest among the young, drugs, sexual and other permissiveness, pollution, crime, welfare and the national debt, No!

"Since No. 2 might be easier to correct than No. 1 is to obtain, the over-all answer would seem to be Yes."

And Jack Hesse, an Electra, Texas, insurance agent, is not only pleased with the present, but with what he sees ahead.

"We are infinitely better off than 25 years ago," he writes. "Changes and improvements have been essential to solve the problems of the past. Today we have a new set of problems and it will take more improvements to solve them. By the end of the next 25 years we will be even better off. We will also have a new set of problems to work on. This will keep us a moving, progressive nation."



Here's a "hot idea" at work on the Santa Fe—a 66-car unit train of liquid sulphur between Rustler Springs, Texas and the Port of Galveston.

This is one of four unit trains Santa Fe operates for the Duval Corporation—delivering nearly a million gallons of molten sulphur a day from their plant in West Texas to the Port of Galveston—on precision schedules.

The sulphur is steamed to the required heat of about 290° F. for loading into tank cars at the plant, and then moves 930 miles on a schedule permitting delivery in Galveston while the sulphur is still in its liquid state.

From the mountains of eastern New Mexico to Kaiser's steel plant at Fontana, California, another unit train operation supplies 8,400 tons of coking coal every four days, making a round trip of over 2,150 miles.

In addition to these unit trains, Santa Fe moves oranges, potatoes, chemicals, potash, grain and other commodities to Gulf and Pacific ports, as well as to domestic markets in carload and trainload lots.

You benefit from all of this experience and more when you ship Santa Fe—by rail, truck, air, pipeline and we can help you select plant sites and real estate development.

Santa Fe

Support ASTRO: a sound transportation plan to meet tomorrow's needs.

Torrent of Trouble

For decades, a "routine" repackaging of navigation laws gathered dust; then it suddenly was transformed into an ecological club which has plunged business into a maelstrom of paper work and could eventually cost it billions of dollars

On July 1, most American industrial enterprises were violating federal law that Congress didn't even know it had passed.

As of midnight, June 30, nearly all had to apply for a permit from the Army Corps of Engineers to empty waste into navigable waters—or their tributaries.

Not just huge quantities; even minute amounts. Without a permit, for example, a plant whose waste water contains one part in a million of even a harmless residue violates the law.

In June, Lt. Gen. Frederick J. Clarke, chief of the Corps of Engineers, "guessed" that about 40,000 companies would apply, and added, "some estimates run as high as 300,000."

Yet by July 1, fewer than 8,000 firms had filed applications.

It wasn't necessarily that other firms were dragging their heels. Quite

ILLUSTRATION / [illegible]

the contrary. "Our members worked like hell to meet the deadline," says one association executive.

But the companies had been given what was almost a Mission Impossible.

Namely, to provide a vast amount of information about their operations—on as little as 30 days' notice.

So far, the government has not prosecuted companies for failing to get applications in on time. Maybe that's because the companies had already suffered enough.

"Meeting that deadline was a nightmare," says an officer of one corporation that did.

"It cost us about 19,200 man hours. That's the equivalent of 140 men, working more than three solid weeks, to collect data, analyze it, make drawings and prepare the applications."

For some executives, meeting the deadline meant not only blood, sweat and tears—but writer's cramp.

Each plant requires a separate permit.

Each application must be signed by the corporation's chief executive officer—or "an official of the rank of corporate vice president" designated to sign for him.

When he signs, he becomes personally responsible for what happens at each plant. If a careless plant superintendent pollutes, the signer's head is on the block.

"How did we get in this mess?" many businessmen must have wondered.

Just "routine" in 1899

It's a good question. To answer it, you must go back 72 years. That's when Congress passed a "routine" bill—the Rivers and Harbors Act of 1899.

It was harmless, its sponsors insisted. It merely polished up, and put in one neat package, a hodgepodge of navigation laws already on the books, they explained.

Sen. William P. Frye (R.-Me.) fielded objections on the Senate floor.

"The War Department," he explained, "was instructed to codify the laws touching on rivers and harbors. We have passed laws in each river and harbor act and they are scattered from the beginning of the Revised Statutes through to the end, and some of them are a little bit crude."

The bill, he added, was the result of the War Department's work, and "I don't think there is any necessity of reading it. It is only those sections of the Revised Statutes codified."

But Sen. Richard F. Pettigrew (R-S. Dak.) had a question. Had the bill been considered by the Committee on Commerce?

"Oh, yes," Sen. Fry replied, "and examined . . . through a subcommittee with great care."

An expert was consulted, too, he volunteered:

"Col. Mackenzie [of the Corps of Engineers] who understands the laws about rivers and harbors . . . better than any man living."

Sen. Pettigrew weakened, but fought on.

"I do not like to object," he said, "but I think this is a dangerous precedent. It seems to me we are enacting an entire revision of these laws."

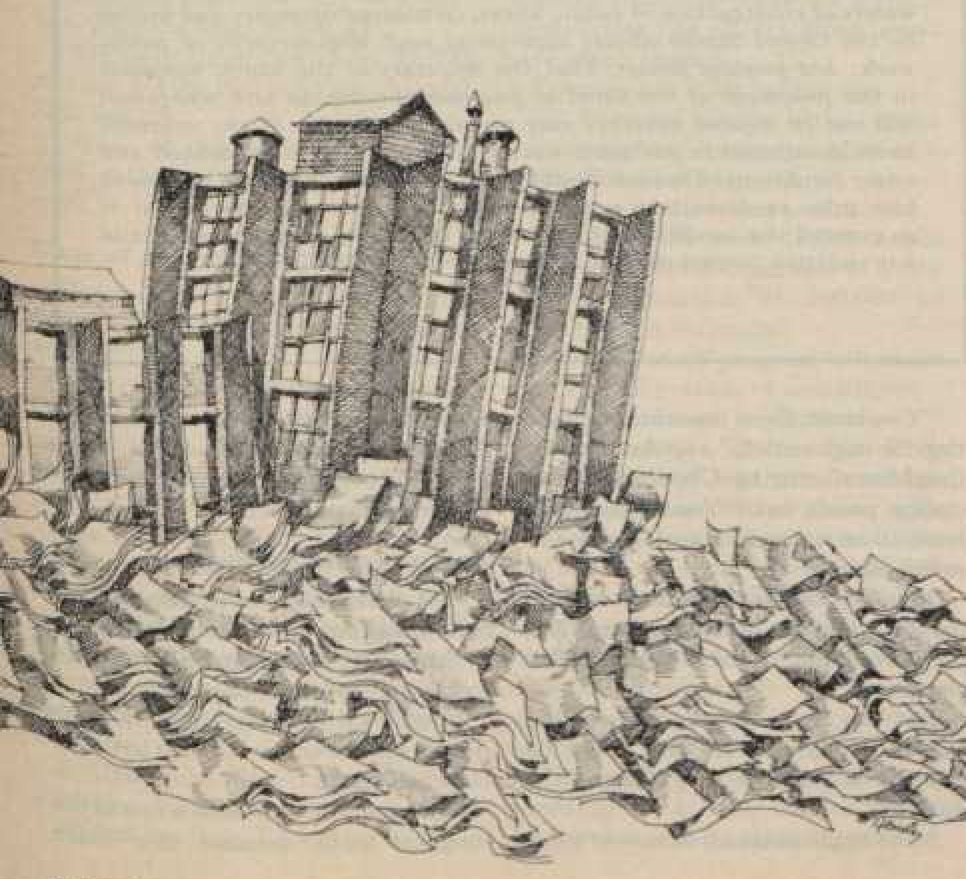
"Oh, no, there are not 10 words changed," Sen. Fry replied. "It is a compilation."

So the measure passed as an amendment to an appropriations bill—without even being read.

Sudden transformation

As things turned out, Sen. Pettigrew may have been prescient when he sensed something was fishy.

Nearly 70 years later, the routine



law to protect anchorage and navigation suffered a sea change. In it, lawyers and jurists found a hidden meaning.

The courts ruled it could be construed to bar any discharge of any kind into navigable waters or their tributaries without a permit from the Corps of Engineers. And the Nixon Administration decided on enforcement in line with those rulings.

What's a navigable body of water or a tributary thereof?

"Probably every body of water in the United States," says Gen. Clarke.

He adds, with a chuckle: "Except a couple of streams that disappear into the desert."

How did the stodgy old Rivers and Harbors Act of 1899, which one observer describes as "meant to keep logs out of the rivers," suddenly become a big club in the hands of the ecologists?

By virtue of a semicolon in Section 13, some argue.

"If you read the act carefully, you'll see that the discharge of materials into the navigable waters of the United States is made an offense without regard to the impact upon navigation," says Martin Green, chief of the Justice Department's Pollution Control Section.

"The first clause doesn't tie the discharge in with any interference to navigation at all."

The courts, taking a loftier view than that of mere grammar, reach the same conclusion.

The "fact that a river is more than an amenity, but is a treasure, forbids a narrow cramped reading" of the Act, an Illinois court held. The Supreme Court agreed.

Or else

As a result, nearly every factory, foundry, mill and mine in the United States must obtain a permit to operate from the Corps of Engineers—or shut down. The exceptions are those whose discharges go only into public sewage treatment systems.

The alternatives aren't pleasant. They include facing criminal charges, or a civil suit filed by the Justice Department—or by indignant ecologists.

Each applicant had to file 11 pages that call for a raft of data—much of it never collected before by many businesses. The form—containing questions both from the Corps of Engineers and the Environmental Protection Agency—was too complicated to be understood unaided. The Engineers issued an 118-page pamphlet—later amended—to explain it.

Filling out the forms has cost business millions and will cost millions more.

"You must file a separate application for each outlet," a spokesman for the Manufacturing Chemists' Association points out. "You could easily have 10 or a dozen of such outlets at every plant.

"The application fee alone is $100 for the first point of discharge and $50 for every other. That's $550 to $650 per plant."

But the fee is only a drop in the bucket, other sources add. The big expense is the cost of gathering the data.

Most applicants had to answer some 250 questions about each plant outlet that discharges waste into a navigable body of water—or its tributaries.

Some were unanswerable—unless the company had kept detailed records in the past.

Like what's the winter temperature of intake water.

By Oct. 1, each applicant must answer up to 561 more queries about what he is putting into the water. This covers some 51 possible items including color, hardness, radioactivity and coliform bacteria.

Astronomical expenses

One chemical firm, Monsanto Co., estimates that it will cost $1 million to ferret out and report all the data to answer both sets of questions.

"But we'll do it on time," a company spokesman says through clenched teeth.

Chemical companies face one of the toughest tasks—because they make

How It All Started

Rivers and Harbors Act of 1899 Section 13:

It shall not be lawful to throw, discharge, or deposit, or cause, suffer, or procure to be thrown, discharged, or deposited either from or out of any ship, barge, or other floating craft of any kind, or from the shore, wharf, manufacturing establishment, or mill of any kind, any refuse matter of any kind or description whatever other than that flowing from streets and sewers and passing therefrom in a liquid state, into any navigable water of the United States, or into any tributary of any navigable water from which the same shall float or be washed into such navigable water; and it shall not be lawful to deposit, or cause, suffer, or procure to be deposited material of any kind in any place on the bank of any navigable water, or on the bank of any tributary of any navigable water, where the same shall be liable to be washed into such navigable water, either by ordinary or high tides, or by storms or floods, or otherwise, whereby navigation shall or may be impeded or obstructed: *Provided*, That nothing herein contained shall extend to, apply to, or prohibit the operations in connection with the improvement of navigable waters or construction of public works, considered necessary and proper by the United States officers supervising such improvement or public work: *And provided further*, That the Secretary of the Army, whenever in the judgment of the Chief of Engineers anchorage and navigation will not be injured thereby, may permit the deposit of any material above mentioned in navigable waters, within limits to be defined and under conditions to be prescribed by him, provided application is made to him prior to depositing such material; and whenever any permit is so granted the conditions thereof shall be strictly complied with, and any violation thereof shall be unlawful.

so many different products. But others feel the bite, too.

One of the nation's larger coal producers says the form-filling is costing it $500,000.

Small companies have been hit hardest.

"Most of them," says Hal Conner, Washington representative, Pacific Gas and Electric Co., "don't have the labs to do the work themselves.

"They had to go and find an outside consultant, stand in line until he could get to them and then pay for the work."

Engineering consulting firms say they have been swamped.

"Our lab has been stacked to the rafters with work," says Paul Morgan, Cyrus Rice Division, NUS Corp.

"And I'm sure it has been the same with all our competitors."

Robert Stauffer, general counsel, National Coal Association, estimates "it will cost about $1,000 in lab expense and man hours for each application."

Another authority, who agrees, says this runs the cost into astronomical figures.

"At least 40,000 companies are expected to require permits," he says.

"Suppose each has only five outlets. That's a total of 200,000.

"Multiply those figures by $1,000 and you get the real bad news. Maybe $200 million.

"None of this is money spent to curb pollution. It's just for paper work."

Case of the missing guidelines

How soon will it be before permits are issued? No one in Washington knows.

"A real simple discharge should sail right through," says the Corps of Engineers' Gen. Clarke. "But some might take up to two years to process."

One stumbling block is that no one knows what standards of purity the plants must meet to get a permit. The standards will be set by the Corps of Engineers, state water quality control agencies and the Environmental Protection Agency, with EPA having the last word.

By late July, EPA had issued no guidelines for any industry.

In fact, by then, it gave up on national guidelines—after months of trying to set them up.

At a press conference, EPA Administrator William D. Ruckelshaus finally threw in the towel. There's no way "that really makes sense" to get any, he conceded.

James J. Hanks, senior economist, Water Resources Engineers, Inc., says the cost of meeting likely government standards may reach $130 billion. EPA experts don't dispute that figure.

"Industry and municipalities have already invested $20 billion in waste treatment facilities," says Robert Coughlin, EPA staff economist.

"And annual spending comes to over $2 billion—about half by business and half by cities and towns."

Most Americans don't realize what a high priority they are setting on ecology—and what they're paying for it now.

Mr. Coughlin spells it out.

"Already we're spending annually $10 per capita on water pollution control alone. That's half of what we spend for police protection."

A bumper crop: Pollution

Oddly enough, no matter what industry spends to make our streams crystal-clear, its efforts alone won't have much impact.

Farming has a far heftier one.

Silt from soil erosion is the biggest pollutant of our riverways. Most of it is runoff from tilled land.

Livestock operations pollute, too.

One feed lot with 10,000 cattle produces wastes comparable to a city with a population of 100,000 to 200,000, EPA estimates.

But the permit program will cover only a small portion of agriculture.

Mr. Ruckelshaus explains why.

"Most farmers are exempt. Only the bigger feed lots are involved. We've cut them off at those with 1,000 animal units. That means 1,000 beef steers, or their equivalent—700 dairy cows, 4,500 butcher hogs, 12,000 sheep, 35,000 feeder pigs, 55,000 turkeys, 180,000 laying hens or 290,000 broilers.

"If we went below that, we'd be swamped.

"But other farmers must meet standards set by the federal Water Quality Act and by state agencies."

To Mr. Ruckelshaus, the whole costly permit program is well worthwhile.

"It will give us a great deal of information about industrial pollution," he says.

"It's information that we haven't had up to now.

"We're trying to get at the big polluters. We already know who they are. I can go into any regional EPA office and ask who their biggest polluters are, and they can reel off their names."

Right way—or wrong?

The tall, 39-year-old lawyer, whose suite on the sixth floor of an old office building in Washington is as tidy as he hopes to make America's waterways, adds:

"The permit program has enabled us to get the attention of top management. Before, we were lucky if we could get in to see the assistant plant manager."

Industrial engineers tend to be less sanguine.

"Washington is going about it the wrong way," says Jack Kinney, a sanitary engineer, who is a member of the Interior Department's Advisory Committee on Water Data for Public Use.

"For one thing, we're aiming at standards that are unrealistic and impossibly costly. What we should worry about is the quality of the water—not every trace element going into it in concentrations that are hardly measurable.

"We're going to make it impossible for heavy industry to locate in the United States and be competitive in world markets. Industry will have to move out—or lose out."

An angry chemical engineer echoes that complaint.

"Look at Japan," he says. "It has one of the worst problems in the world.

"But business and government are sitting down there and working out some realistic approaches.

"And when they finish, they'll have an effective program that's better than ours and won't keep their industry from competing in international markets.

"But there, technicians are working it out—not lawyers." END

But They Can't Do That to Us!

When the labor organizer knocks at a union's own door, he isn't necessarily welcomed with open arms

The International Association of Machinists, a giant union which has struck airlines, aerospace plants and other businesses, gets a taste of its own medicine at its headquarters in Washington.

U.P.I. PHOTO

A farmer lived on the perpetually dry floor of a narrow canyon, below a cliff.

One day, so an old story goes, he peered out to find rain sheeting down. A river swirled in his dooryard. A virtual Niagara poured from the canyon's lip onto his roof. Lifting his gaze toward the leaden skies, he cried:

"I prayed for rain, but this is ridiculous."

A very similar thought must flash through the mind of a labor leader when he looks out to see his own union's employees picketing his office—demanding union recognition, a pay increase or extra benefits of the type he's been extracting from company managements for years.

One might think union chieftains would rush to encourage their own workers to organize.

It ain't necessarily so.

For instance, they sometimes contend their employees are "managerial" and thus not subject to the National Labor Relations Act. (The top brass of the AFL-CIO itself took that position concerning AFL-CIO field representatives. But the National Labor Relations Board ruled the field men could organize their own union.)

Sometimes the unions withhold an automatic wage increase from staff employees who organize and seek recognition. (The NLRB found for members of the now-defunct Federation of Union Representatives, who claimed their employer, the International Ladies' Garment Workers'

Union, refused them automatic pay boosts.)

Sometimes the unions claim they aren't really employers, so the NLRB lacks jurisdiction over them in that capacity. (The NLRB has rejected that notion many times, notably in a landmark case involving the Air Line Pilots Association and in another involving the American Guild of Variety Artists. So has the Supreme Court—in a hassle between the International Brotherhood of Teamsters in Portland, Ore., and Local 11 of the Office and Professional Employees International Union.)

Sometimes unions illegally fire workers who lead picketing or who organize employees (the NLRB found that the International Association of Machinists' District Lodge 141 illegally discharged one union employee who tried to help the Teamsters organize his fellow workers).

And, according to those who have been involved in organizing union employees, unions abruptly will find that layoffs "for economy reasons" are necessary (and the laid-off seem to be predominantly those most active in organizing unions) or that transfers to remote places are required (with ringleaders in the organizing drive being the transferees).

Who? Me?

As a result of some of these tactics, grizzled labor leaders have been jolted when their employees taxed them with such mortal sins of trade unionism as "union busting," writing "sweetheart contracts," or establishing "company unions."

In Detroit last March, some top officials of the United Auto Workers were dismayed to hear themselves branded "scabs" after they crossed picket lines set up at Solidarity House, the UAW's national headquarters, by clerks and typists employed there.

The Office and Professional Employees International Union demonstrated, incidentally, that it is no more moved by pleas of poverty from a union than by those from any other employer. The UAW, laid low by its own long strike against General Motors, and at that time still waging strikes against a number of smaller employers, had protested

PHOTO: JOHN COLLIER—DETROIT FREE PRESS

Why does a union leader cross a picket line? Because he's on the other side. The glum gentleman is Emil Mazey, secretary-treasurer of the United Auto Workers, shown when there was a marked lack of solidarity at the UAW's Solidarity House in Detroit.

that it couldn't increase its office workers' pay.

After all, it said, it had been forced to mortgage Solidarity House and its recreation complex to two other unions, the Teamsters and United Steelworkers. And, it said, it had a policy of not raising UAW employees' wages above increases won by men in the shops. But the OPEIU struck anyway—and got a pay increase, though not what it hoped for.

The union movement has collided head-on with itself in other cases that have made headlines this year.

In Washington, D. C., members of Local 2 of the OPEIU struck for six weeks and picketed the national headquarters of their employer, the International Association of Machinists. They won a wage increase.

And the National Education Association, which declared in favor of strikes by school teachers, was confronted with a strike of its own. Some 600 to 800 of its nonsupervisory office employees, members of the National Education Association Staff Organization, an independent union, walked out at its Washington headquarters in a dispute over contract renewal. The NEA insists it's not a union, but a lot of school administrators dispute that.

Howard Coughlin, president of the OPEIU, which numbers among its members some 4,000 employees of labor unions, insists that strikes against unions as employers are rare.

"When it happens it receives na-

tionwide publicity because it's an oddity," he maintains.

Frequent or not, the anomaly of a leading light of organized labor disputing with a labor union always provokes a "why?"

A harsh explanation is advanced by Thomas E. Dotson, a student of the unions-within-unions phenomenon who once was a United Rubber Workers Union aide and is now in General Tire and Rubber Co.'s Labor Relations Department.

"The top people in unions now are by nature dictatorial," he says. "Their ego is it. They don't want to negotiate with somebody else."

More sympathetic is Morris Sackman, a U. S. Civil Service Commission labor relations official who is an alumnus of the International Ladies' Garment Workers' Union. "As managers with limited financial resources," he says, union leaders "act like any other managers."

Organizing the organizers

The question of organizing a union's own organizers is a particularly delicate one.

David Dubinsky, former head of the ILGWU, took the position that an organizer was supposed to be like a clergyman—that he was tending a flock and that to seek betterment of his own lot through collective bargaining was inconsistent with his obligation. So recalls Mitchell Cooper, a Washington lawyer retained in 1960 and 1961 by the Federation of Union Representatives, which tried unsuccessfully to represent ILGWU agents outside New York City.

Similar views are attributed to other labor leaders.

The late UAW President Walter Reuther, says Robert W. Christofferson, believed that "these guys ought to be part of an army—and who ever heard of an army being organized, except the way the generals want it?" Mr. Christofferson was secretary-treasurer of the Field Representatives Federation when it was being formed in 1957 and 1958 to represent AFL-CIO organizers. Mr. Reuther was then a member of the AFL-CIO's executive board.

What has "really bugged" many top labor leaders, says attorney Cooper, is that they have seen organizers' unions as a possible threatening force in intra-union politics.

He recalls international presidents saying there would be "a terrible conflict of interest if these people organized themselves in opposition to the union leadership to further their own economic interests. . . . Soon you would have a political organization."

Union leaders' resistance to unionizing of their employees—organizers or others—is also ascribed to their reluctance to brook any interference in their running of union business.

"In large measure the reason for opposition is much the same as it is at companies," says Mr. Christofferson. "It's the feeling that 'We know what's best; we run the operation the way it should be run and we don't want interference.' "

Inevitably, he adds, "organization brings interference," and union leaders are repelled by the thought of having to "share decision-making, to some extent," with their newly organized employees.

The hassling between big unions and the smaller ones that represent their employees—or want to—sometimes produces situations rich in paradox and seeming union heresy.

In January, 1958, when he was secretary-treasurer of the Field Representatives Federation, which was seeking to organize the AFL-CIO's own organizers, Mr. Christofferson was among those fired for so-called "economy reasons," he recalls.

"They let me go but kept four employees with less seniority on the staff in my region," he says.

"The very night the AFL-CIO fired me, after 12½ years with them, I had to drive about 50 miles to a small North Carolina furniture manufacturing town to urge on the workers the virtue of having a union.

"I'll never forget the irony of it."

The AFL-CIO finally recognized the FRF in May, 1958.

One organizer remembers meeting with James Carey, then president of the International Union of Electrical Workers and a member of the AFL-CIO executive board, during the FRF drive.

"I knew there was no hope of swaying him," the organizer reports, "when Carey pulled from his drawer a bunch of newspaper clippings highly critical of the AFL-CIO for failing to recognize or deal with their own employees. Carey said to me: 'Look at the embarrassment that you've caused the labor movement.' " (Now, however, all of the IUE's own employees are unionized.)

Conflicts of interest?

A speculation that intrigues some labor specialists is what might happen if the FRF ever decides to strike.

The FRF's charter authorizes it to draw upon the AFL-CIO defense fund for an "approved" walkout.

But suppose the AFL-CIO and FRF were unable to resolve differences, and the staff struck. In order for the strikers to get benefits, the AFL-CIO would have to approve the strike against itself.

The OPEIU, the office workers' union, confronts another less-than-arm's-length situation. Its Local Union 2 represents the OPEIU's Washington headquarters employees.

Isn't the OPEIU in effect negotiating with itself? Isn't this a conflict of interest?

President Coughlin says No: "We really don't represent our own. A local of the international does. And I'd say they're probably more difficult to deal with than if they were a local of some other international, because they insist that all international unions pay the same settlement, regardless of ability. Certainly our ability to pay is not as great as that of some of the large international unions."

(Local 2 has a master agreement covering office employees of all international union headquarters in Washington. That means a typist working for the Brotherhood of Carpenters, say, is covered by the same agreement as one working for the Machinists—or for the OPEIU's own high command, for that matter.)

Sometimes, long exposure to union evangelists can have unforeseen results.

For example, UAW Vice President Douglas Fraser's daughter, who presumably had lifelong lessons in union principles, is a UAW headquarters office worker in Detroit. She was one of those on the OPEIU picket line

last March at Solidarity House, where her dad works.

Another striker was quoted in *The Detroit Free Press* as declaring: "We have a right to strike and we're exercising it. We've learned that from working for them all these years."

Fencing with the picket line

Because one of labor's most stringent taboos is "Thou shalt never cross a picket line," UAW officers were forced to spin out a rationalization for their decision to do so.

According to newspaper reporters they argued that they had a higher duty to UAW members and pensioners; that they were acting in their capacities as employers, not union members; and that they were not depriving strikers of work. To prove the last, they dutifully carried on all necessary letter writing in longhand, a union spokesman said.

At that citadel of unionism, the Philip Murray Building in Washington, strikes against the UAW and the International Association of Machinists, two of the tenants, caused some tenant problems.

The International Union of Electrical Workers is landlord at the Murray Building, and a number of unions, mostly national headquarters staffs, are tenants. Faced with the prospect of crossing picket lines set up to badger the UAW and IAM, members of a half-dozen other unions moved out to temporary offices until the picketing stopped.

Unions representing union employees date back at least 50 years, Mr. Coughlin says. Largely, he adds, the early ones were local office worker operations which have since become units of the OPEIU.

Now, most union headquarters boast some kind of employees' bargaining group.

Probably none of the resulting relationships is more tortuous than the one in which the American Newspaper Guild finds itself. It operates on all sides of the bargaining table.

It fulfills the conventional role of a union by representing reporters, editors and other employees in dealings with private newspapers.

It also represents "executive" or "management-level" employees of other unions. (These are people who have nothing to do with writing or editing. For example, executive-level employees at the AFL-CIO's Washington headquarters belong to the Guild.)

And as an employer it deals with a union of its own organizers and professional staff (that union is small, and not affiliated with the Guild or the AFL-CIO).

All this may suggest a fantasy, in which trade unionism, like a runaway atomic reactor, generates so much activity that it just melts. It could go like this:

- Guild members would be on strike against their employer, the AFL-CIO.
- But the Guild couldn't counsel them because its own representatives would be on strike against the Guild.
- And the NLRB would be powerless to act. The National Labor Relations Professional Association, a union-like outfit which recently challenged the NLRB's method of assigning work to its employees, would be striking against it.

—WILLIAM M. RINGLE

PHOTO: JEAN BERG

These pickets weren't exactly teachers' pets when they showed up outside the Washington offices of the National Education Association. They're members of an independent union of nonsupervisory NEA white collar workers.

Japan and the U. S.— a Call for Harmony

KOGORO UEMURA, *author of this article, is president of Japan's prestigious Federation of Economic Organizations (Keidanren) and former chairman of the board of Japan Air Lines.*

The Keidanren and the Chamber of Commerce of the United States were cosponsors of the eighth U. S.-Japan Businessmen's Conference, held recently in Washington.

A counterpart article by National Chamber President Archie K. Davis, presenting American business views on Japanese-U. S. economic relations, is appearing in the August issue of the Keidanren's monthly magazine.

In some quarters, Japan has been given the label "Japan, Inc." The implication is that Japanese government and business have banded together in a single national corporation aggressively pushing expansion of exports and restriction of imports.

It is true that during the process of modernization spanning a century, the Japanese government carried out measures for positive guidance and assistance, both direct and indirect, to foster and promote industry.

This policy was to some extent necessary to enable a late-starting nation with scarce natural resources to stand on its own feet economically.

In recent years, however, the degree of government intervention has shown a marked decline. Japanese entrepreneurs are convinced that the rapid economic growth of recent years owes much to sound competition based on free enterprise without reliance on government.

The government similarly has recognized this fact, and has been striving not to interfere in private business activities.

The Keidanren Federation of Economic Organizations constantly watches for excessive interference by the government and advises it frankly to rectify such actions wherever necessary.

It is a matter of deep regret that in spite of the firm friendship between the United States and Japan, a number of trade problems requiring adjustment between the two countries have recently cropped up.

If current frictions were left as they are they would lead to increasing mutual misunderstanding and distrust, to the detriment of friendly relations.

Accordingly, it is imperative that both the United States and Japan examine the causes of such frictions, assess them correctly from the broad standpoint of their over-all friendship and exert their highest efforts to resolve them in a spirit of mutual concession.

These frictions have resulted primarily from a sharp upsurge in our exports to the United States at a time when Japan's trade and capital liberalization was not proceeding quickly enough. Americans felt Japanese products were entering the U. S. market freely while American goods were not accorded equal treatment in the Japanese market.

The economic relationship between the United States and Japan has become particularly close in recent years. Their two-way trade more than quadrupled from $2.5 billion in 1960 to $10.5 billion in 1970, according to American statistics.

The United States is by far the biggest single market for Japanese goods, accounting for about 30 per cent of Japan's total exports. For the United States, Japan ranks second only to Canada as an export market. Since Japan purchases large quantities of resources produced by American-affiliated companies in third countries, such as coal, iron ore, petroleum and nonferrous metals, total transactions between the United States and Japan far surpass the bilateral amount. In addition, Japan imports from the United States large quantities of capital and technology.

Japanese exports to the United States have increased rapidly partly because our export industries have enhanced productivity through heavy investment in new plants and equipment, thus strengthening their position in the world market, and also because Japan has built an industrial structure which can successfully meet American demands.

Another important factor is the expanding demand for imported commodities in the United States resulting from sustained inflation, which makes many American products relatively expensive.

Now, concern about friction in overseas markets has given rise to the view in Japan that she should exercise self-restraint, strive to establish orderly marketing and, at the same time, open up her market by expediting the reduction of nontariff barriers and promoting capital liberalization.

In this case, orderly marketing does not mean so-called "voluntary restraints," which are virtually forced by the importing side. It is a genuine desire to voluntarily restrain the tempo of export expansion and achieve orderly marketing based on the principle of free trade.

In cases where Japan's exports of certain commodities grow so fast as to injure American industries, it becomes necessary for Japan to moderate its export expansion and help in making the adjustment process less painful. The problem, therefore, is how to establish a voluntary system for orderly marketing. Voluntary restraints can be exercised within the framework of government control or on a purely private basis. When the governments of the two countries are unable to agree on the restraints, it may be necessary for private industry to take the initiative, as in the recent case of textile exports.

The Japanese government is supporting the private industry's efforts and is cooperating with the industry to actually implement the plan.

Japan is already exercising self-control on exports of about 70 kinds of commodities—including cotton goods, iron and steel and others—to the United States. Almost all these export self-controls were adopted under great pressure from America.

On textiles, Japan and the United States have conducted protracted negotiations on Japanese restraints, but to no avail. As a result, the Japanese textile industry announced unilateral self-imposed restraints.

From the American side, this may well have been unexpected, because negotiations, although stalemated, were still continuing between the governments. It is understood the industry took action because it saw no prospect of resolution through continued governmental negotiations.

Be that as it may, we are fully cognizant that international society essentially rests upon a relationship of mutual benefit and trust. Although we believe such a relationship is best promoted by a system of free trade, we realize also that unrestrained marketing leading to one-sided export expansion cannot be maintained for long, since it invites criticisms and restrictions.

In this connection, the view is spreading in Japan that the policy of placing excessive emphasis on exports should be revised. After the war Japan, lacking in domestic resources, was preoccupied with the overriding need to promote exports by all means to pay for imports of raw materials and machinery and equipment indispensable for industrial rehabilitation and development.

Economic policy makers gave top priority to export promotion and economic growth. In the past few years,

however, some profound soul searching has taken place about the policy of rapid economic growth, for it has brought us face to face with such new problems as intensified environmental disruption, labor shortages and rising prices. This trend has been fueled as well by rising consumerism.

The view is gaining momentum that the people's energies should be directed more toward elimination of environmental disruption, improvement of the environment and expansion of social capital—in short, the qualitative improvement of life.

In other words, the Japanese economy has now shifted from quantitative expansion to qualitative improvement. This change should contribute to reducing some of the frictions between Japan and the United States over Japanese exports.

Meanwhile, the criticism is often heard that Japan still maintains import curbs on many commodities, restricting the inflow of American goods. In recent years, however, Japan has been steadily pushing ahead with import liberalization. This is not widely known among the American people, except those who are directly concerned with trade, but it is worthy of special attention. In reality, the tempo of trade liberalization has accelerated sharply of late.

In December, 1968, the Japanese government decided to "liberalize imports in a considerable number of fields in the following two or three years" and a subsequent series of decontrol measures has cut to 60 the number of items still subject to residual import curbs at this writing. Twenty additional items will be decontrolled by the end of September.

At that time the number of items subject to residual import curbs will be down to about 40, almost equal to the level of West Germany. The government is selecting 10 more items to be liberalized by the end of this year. Included in the remaining items will be no more than 12 industrial products, far less than in West Germany. (The Western European nations have, in addition to a general list for curbing imports, a separate list for curbing Japanese imports.)

The other remaining items are agricultural products, including some of interest to American exporters. Trade liberalization of agricultural products presents a very difficult political-social problem in almost all industrial countries. The U. S. itself has a range of subsidies, import restrictions and U. S.-initiated international arrangements on agricultural imports.

One special feature behind the agricultural import restrictions in Japan is the small size of the agricultural sector in terms both of cultivated acreage per farmer and of management units. Some 5.3 million farmers divide among them total land of only around 15 million acres. For a majority, average acreage is below 2.5.

The government has just begun to carry out drastic measures for diversification of farm products and enlargement of the scale of agricultural management. Agriculture in Japan is thus in a period of adjustment. As in other countries, farmers as a whole have massive voting power.

Nevertheless, long-range liberalization of agricultural products will continue to make steady progress.

There is also considerable dissatisfaction among Americans that, whereas Japanese enterprises are almost entirely free to do business in the United States, American enterprises seeking to invest in Japan are subject to diverse limitations.

It should be remembered that Japan entered the path to an open economy many years behind Western countries. Many problems still beset Japanese private enterprises: weak financial structure, and relatively lower levels of technology and management compared with the United States are prominent ones.

The Japanese government has taken a number of steps to liberalize direct investments, recognizing that if the economy was to maintain momentum, it was necessary to liberalize foreign capital and technological inflow.

The government has implemented decontrol measures in three stages starting in July, 1967, resulting in the liberalization of 530 industries. Included are 453 industries in which foreign capital participation up to 50 per cent is automatically approved when new companies are established (Class I) and 77 industries in which foreign capital participation is automatically approved up to 100 per cent (Class II).

The automotive industry was placed in the Class I category this spring, about a year earlier than originally scheduled.

As to acquisition by foreigners of shares of existing Japanese enterprises, the ceiling for automatic approval is 25 per cent for foreign investors as a whole (15 per cent for restricted industries such as public utilities and banking) and 7 per cent for a single foreign investor.

The fourth round of liberalization is scheduled to go into effect in August. This is to be broader than previous rounds, both in scale and scope.

The Keidanren has all along taken a positive stand on capital liberalization, playing the role of opinion leader. It has recommended to the government that the scope of the fourth round of decontrol should be as broad as possible. Further capital liberalization should not end with the fourth round. Rather, the process should continue.

The number of completely decontrolled industries (Class II) should be increased and the ceiling for foreign participation in existing Japanese companies should be raised from the current ceiling of 25 per cent. I would expect that in the second half of the 1970s, almost all general branches of industry will be 100 per cent liberalized.

Up to now, emphasis has been placed on a 50 per cent ratio of foreign capital participation in new enterprises. It is argued overseas that "decontrol" up to 50

per cent is not liberalization in the true sense, but most Japanese take the view that a 50-50 formula—an equal division of benefits between the investor and the recipient—is a reasonable arrangement.

I, for one, feel that Japan needs a little more time to be ready to accept 100 per cent foreign ownership in Japanese enterprises. Unlike trade decontrol, the liberalization of capital involves the permanent entry of foreign capital, human resources and technology. Not only economic, but political, social and cultural factors come into play.

In many cases, direct capital investment—that is, movement of managerial resources—is undertaken by U. S.-based world enterprises, whose multilaterally oriented behavior has given rise to friction with established national priorities and customs.

Joint ventures based on the 50-50 principle offer an effective way to mitigate or avoid such friction, especially in a country like Japan whose race, language and customs are so different from those of Western countries.

I think this formula is also useful when investing in developing countries because it helps remove apprehension on the part of the host country.

Although Japanese businessmen are aware of the important role played by so-called world or multinational enterprises in accelerating the optimum global distribution of resources, they have slight apprehensions. This is due to the fact that no multinational corporations have yet developed from among Japanese enterprises and because the behavior of world enterprises has been criticized in Europe.

There is still a wide gap between Japan and the United States in capital resources and technological capability. Although the U. S. keeps the door open to Japanese capital, there are only a limited number of Japanese enterprises powerful enough to undertake direct investment there. In fact, the number of Japanese investments in productive undertaking in the United States has barely reached a dozen, all limited in scale.

On the other hand, even a medium-sized American corporation is financially strong enough to invest in Japan. Several hundred American firms have established subsidiaries or joint ventures in Japan in spite of our restrictions.

President Nixon termed the Japanese-American relationship the "linchpin of peace and security in the Asia-Pacific area."

The relationship between the two countries is one of the key pillars supporting world peace. This relationship has been further strengthened by the recent agreement that Okinawa will revert to Japanese administration in 1972. This deeply impressed the Japanese people, and will go a long way toward further bolstering the friendly ties between us.

Moreover, there is close cooperation and partnership between the two countries in the social, cultural and scientific areas. For instance, information is being exchanged regarding such problems as environmental pollution and urban congestion. The two nations are also cooperating in such fields as space science, development of ocean resources and medicine.

That such a wide interchange and close relationship has been established only two and a half decades after a most unfortunate war is a source of deep gratification to the Japanese people.

In my opinion, U. S.-Japan political and economic relations should be based on the kind of "responsible partnership" which President Johnson once said bound the two nations together.

It represents a friendly relationship based on a mutual understanding of national interests and national sentiments—a relationship in which each side, when utilizing its advantage, gives full thought to the possible impact on the other side.

To be more specific, Japan, in taking advantage of its export capacity, should exercise full care that its exports do not have too drastic an impact on American industry. On the other hand, the United States, in using its superior capital resources and technological capability, should avoid arousing unnecessary apprehensions on the part of Japanese industry.

Both nations espouse democracy as their cardinal political principle. Both observe free enterprise and regard free trade as the ideal. Both Japanese and Americans are diligent. Both aspire to peace. If we recognize these common characteristics and use them as a basis for mutual understanding, the causes of friction can be removed. Forums for communication such as the recent U. S.-Japan Businessmen's Conference can play an important role in deepening mutual understanding.

The United States and Japan should, hand in hand, play a major role in the development of Asia and other developing areas.

Japan has decided to earmark 1 per cent of its gross national product for development aid and has declared this target will be attained by 1975.

This means Japan's foreign aid will exceed $4 billion in 1975, or equal the current level of American foreign aid. The neighboring nations do not want Japan to increase its armaments, nor do we. The best way to contribute to building conditions of peace and stability in this region is to devote our prime energies to assisting the economic stability of the developing countries.

The United States will surely continue to play an extremely important role in this endeavor, and it is incumbent on the United States and Japan to join their efforts.

It is my fervent hope that our nations will exert their utmost efforts to solve the bilateral issues between them, and to further strengthen their bonds of cooperation so that they may work more effectively together in the high cause of world peace and prosperity. END

This Month's Guest Economist

Bertram W. Zumeta
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The Road to 1976

Inflation is slowly going down, investment valuations have risen, and a business recovery is under way. How long will it last? Can the nation mark its bicentennial, in five years, without having endured still another recession?

Business cycles have complex causes. Yet in a way, the recession of 1970 is easily explained. Inflation made it necessary.

In simplest analogy, the U. S. economy is represented by two flows: Goods and services flow from producers to consumers, and in exchange, dollars flow from consumers to producers.

When productive resources—people, plants, equipment—are unused, as in 1960 and 1961, added dollars put into the hands of those who will spend them can put unemployed resources to work. This is why the flow of funds to spenders was increased through tax cuts in the early '60s.

If the funds flow is too rapidly enlarged, sooner or later the pool of unused productive resources is entirely employed. Spenders being spenders, the likely result is that prices of goods and services will be bid up, since the flow of goods and services cannot be augmented by enough new production to match the increased flow of funds.

This point began to be approached in 1966, as war spending was superimposed on strong civilian demand. The flow of funds to spenders was not curtailed adequately, however, and the inevitable occurred—prices were bid up. The bidding up continued with increasing intensity through most of the late '60s, even though attempts were made to curtail the flow of funds by means of surtaxes on income and other taxing actions. Eventually, Federal Reserve authorities had to restrict severely the flow of funds to the entire economy, using their powers to regulate the supply of money and of bank credit.

The combination of fiscal and monetary restraint finally slowed spending, but it also affected confidence. Consumers, fearing both inflation and the prospect of recession, saved more and spent and borrowed less. Businessmen found sales growth below expectation and money difficult to obtain, and so curtailed their spending, too.

These cumulative, mutually reinforcing influences cut back the pace of economic activity. Resources were taken out of production so inventories would not accumulate as sales slowed. And suddenly a recession was in progress.

All through the recession, prices continued to rise. Even though the bidding-up process induced by an excess flow of funds finally subsided, price adjustments had to work back through the economic system. Workers and suppliers are still adjusting to the higher price structure by trying to get more for their services, but as the recovery progresses these catch-up price changes should become fewer. The price indexes already are beginning to reflect this.

The final events of the inflationary process of the '60s are happening. Fiscal and monetary policies now put funds into spenders' hands. The stage is set for a period of noninflationary growth—or is it?

Experience of the last decade shows that as the pool of unused resources diminishes—that is, as the economy approaches full employment—a "flash point" is reached when new spending becomes less effective in bringing resources into production. At that point, bidding up of prices—always present in limited sections of the economy—intensifies and begins to become general.

The odds are high that such a flash point will threaten between now and 1976. Actions which form the essence of a creative incomes policy can postpone the threat.

Inflation often is described as demand outrunning supply—too many dollars chasing too few goods. Our society tends to look for quick answers to problems. Therefore, attacks on inflation lean toward working on demand—because it can be inhibited more quickly than supply can be increased. So funds are taken out of the economy through taxing and monetary measures. Sometimes, price and wage controls have also been employed, in effect trying to put a temporary lid on the economic pressure.

In the longer run, inflation can also be restrained by improving productivity—the economy's ability to supply goods and services. This has several payoffs. Giving people more employment options allows the economy to move closer to full employment before demand threatens to outrun supply. And the newly employed become producers as well as consumers, increasing supply.

Also, focusing on productivity draws attention to the most inflationary sectors of the economy: the services and construction industries. Inflation in the United States is most out of control—productivity is increasing least—in the service industries, including government (which employs about 18 per cent of persons on payrolls). Measures taken now to improve productivity in these sectors may begin to have effect in time to put off the next inflationary flash point.

The economy really can take two paths to 1976.

One is that of more or less stable growth. Wise control of demand can conceivably bring this about without triggering a new round of inflation. Combined with incomes policies designed to overcome supply bottlenecks and improve productivity, prudent fiscal and monetary policies have a good chance to succeed.

The other path is to follow the very human bent toward having more now and facing the future when it arrives. It assumes aggressive stimulation of spending to bring all resources quickly into production. If followed without holding growth in demand in line with growth in supply as the flash point nears, it could bring on a new round of inflationary bidding for goods and services. A recession would then become a distinct possibility.

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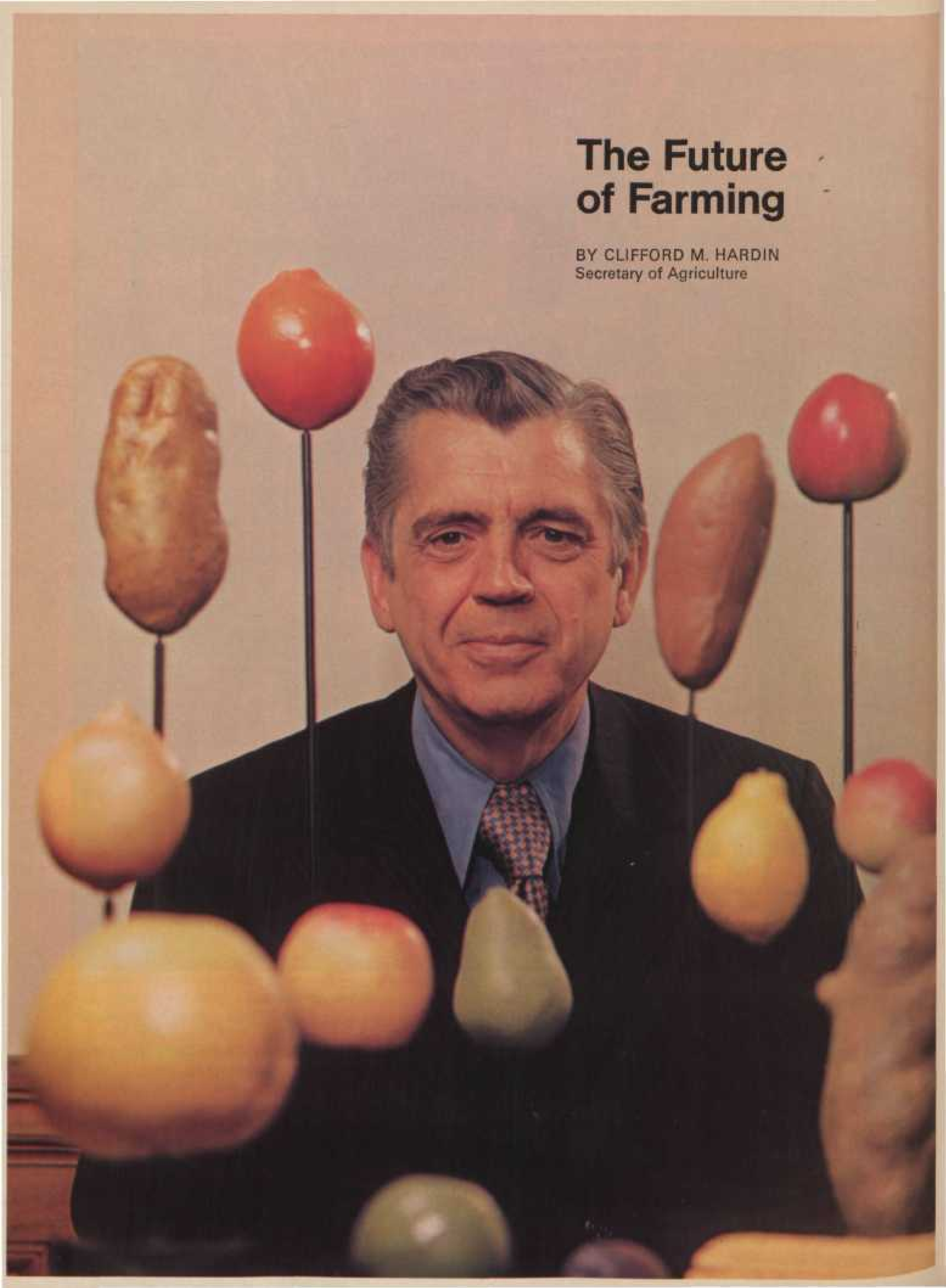
The Future of Farming

BY CLIFFORD M. HARDIN
Secretary of Agriculture



For the fourth time in this century, American agriculture is undergoing a revolutionary change.

Agriculture previously was reshaped by massive mechanical, technological and managerial steps forward.

Now it is coming to grips, in an economy where the service sector is superseding manufacturing as a dominant element, with the process of market orientation.

Nowhere in the world has this process gone so far as in the United States. And nowhere have policy issues arising from it been brought so sharply into focus.

One of the key concerns for agriculture is the future of the family farm. Is it on the way out? Are we moving into an era of large-scale, integrated, corporate-type operations? I believe the answer is a qualified No.

The family farm as we know it today has progressed along with our modern agricultural revolution.

That revolution's first stage, its mechanical one, began in earnest with the advent of the general-purpose tractor in the 1920s. The tractor was followed in quick succession by a series of sophisticated devices that replaced animal and human labor, making it possible for one man to manage a much larger farm.

Introduction of hybrid corn in the 1930s ushered in a technological phase.

It brought almost unbelievable increases in farm yields. Enormous productivity advances grew out of applying the results of research on breeding, nutrition of plants and animals, and use of chemicals. Once again the effect was to increase vastly the total product that one farmer could handle.

These mechanical and technological advances led to a considerable degree of specialization. Resources formerly used to produce horsepower and fuel (feed) were shifted to production of commodities in which the farmer had a greater market advantage.

Specialization has, in turn, led to other changes, particularly the shift from subsistence farming to production for commercial markets.

Farming today is almost totally commercial.

There has also been a significant transition from self-sufficiency to interdependency. The farmer depends for his supplies on other farmers and on the nonfarm sector. About 60 per cent of all purchased production inputs are now of nonfarm origin.

Money replaces the man

Moreover, there has been extensive substitution of capital for labor.

In a relatively short span, farming has moved from a labor and land intensive sector of the economy to a capital intensive sector.

The value of farm machinery and motor vehicles alone increased from less than $4 billion in 1940 to more than $29 billion in 1970. The same period saw the number of farm workers decline from 11 million to fewer than five million. Investment per farm worker now exceeds the investment per worker in manufacturing enterprises.

In order to justify the investments required by the new machines and technology, farms had to grow so as to spread the costs over a larger volume of production. The result was a dramatic drop in the number of farm units: from 5.7 million two decades ago to less than three million at present. Projections indicate around two million by 1980.

However, little of this can be attributed to the rise of large-scale corporate farming. Most of the change has come instead from adjustments that took place within the range of what we generally refer to as family-scale operations.

The farm sector is not dominated by large-scale corporate enterprises, nor is it likely to be. A recent Department of Agriculture study indicates that corporation farms make up only 1 per cent of all farms and control about 7 per cent of the land in farms. Moreover, the majority of these are incorporated family enterprises. To survive and be successful in the years ahead, farmers will have to be able to finance the assembly of a package of resources consistent with an efficient scale of operation, and one that will provide an acceptable standard of living.

Even more critical will be the need to deal with problems and possibilities arising from linkages of the farm production sector with other aspects of our economy and society, including input suppliers, the processing and marketing complex, urban interests and the environment.

It appears likely that we shall continue to have a mixture of farm sizes. Studies indicate that most of the in-plant efficiencies in farming can be realized in units of moderate size—units consistent with the traditional family farm concept.

However, there are other economies, particularly involving buying and selling, in which extremely large farms do have some advantage.

One recent investigation brought out that a 5,000-acre corn farm may be able to realize savings of up to 20 per cent over the typical 500-acre farm in the cost of production items such as seed, fuel and pesticides. Additional savings may be realized on the marketing side, where the very large farm can bypass some of the traditional stages in marketing or transportation.

On the other hand, the economies are frequently offset by higher labor costs, vulnerability to labor problems, inefficiencies in use of labor, and the high ratio of cash costs to gross revenue on large-scale farms.

Contracting for crops

There can be little doubt that some sectors of agriculture have already moved substantially closer to linking production, processing and marketing through various types of horizontal, vertical and conglomerate integration.

Until recently, farmers have been in the position of producing what they wanted to produce and taking what the market offered. The market's function was to get rid of the supply at a price that balanced supply and demand. That price served as a signal for farmers for the next production cycle—although at times the signal has not been entirely reliable.

Now, market institutions and firms—if they are sensitive to demand and well organized—are in a position to specify desired qualities for many

farm products. This has happened to vegetables and poultry; it may become increasingly the case with beef and pork.

If, for example, consumers have a strong preference for lean pork, it is quite probable that meat packers and large food chains could specify by contract the weight, grade, number, delivery date and possibly the breed of hog they will accept.

In effect, the farmer becomes a subcontractor instead of an open market supplier, furnishing a product with negotiated or prespecified characteristics.

The more negotiable the farm product's qualities and the greater the market's response to quality variations, the greater the incentive to capitalize on market preferences by integrating or at least coordinating the stages of production.

Certain commodities, such as wheat and feed grains, presently offer little incentive for integration. However, one fifth of the total farm output in 1970 was produced under contract or some other form of coordination or integration. Many observers believe the trend toward contract marketing will accelerate.

Growing capital requirements may lead an increasing number of producers to question whether they can or should own all the assets needed to farm. Partly as a result of technological changes and partly as a result of changes in the business organization of agriculture, they now have alternatives.

Debt needn't be detriment

Today the more successful farmers often increase their leverage for growth and make their funds go further by cash-renting or share-renting all or part of the land they use. Leasing and rental of machinery and equipment may become more popular on farms where the operators wish to take advantage of tax provisions, minimize the amount of fixed investment tied up in costly equipment, or minimize obsolescence. Also, credit or debt—if properly used—can be an essential tool for acquiring farming resources. The new breed of farmers no longer regards debt as detrimental. Progressive farm managers have come to look on it as a resource to be used wisely like any other production tool.

Hiring the services of machine operators, another way to acquire the use of resources and equity owned by others, is rapidly increasing in importance. A by-product of the availability of custom services is that the more vigorous small farms can achieve access to technology otherwise available only to large farms.

All in all, it is likely that the equity of farmers will grow less rapidly than the value of resources they use, so that the dependency of farmers on nonfarm resources will increase.

One of the problems plaguing agriculture for decades has been the necessity essentially to start over with each new generation. Typically, farmers have had to pay for their land and put together a viable farming operation in each lifetime.

This procedure is unsatisfactory for meeting the needs and demands of a highly coordinate agribusiness complex. Accordingly, an increasing number of farm operators are turning to *family* incorporation as a means of maintaining the continuity of their enterprises.

The corporation's legal existence as an artificial person, independent of changes among its owners, makes it the most stable of business forms. Its stability offers a method of maintaining the farm business over successive generations, avoiding the interruptions that result from death of a sole owner or partner.

The financing requirements of in-

A BUSINESSLIKE FARMER WITH DEEP ROOTS IN THE LAND

PHOTO: DEL GROVES

David C. Schiver works his 1,665 Illinois acres with one full-time employee and a helper hired for the spring planting and the fall harvesting.

David C. Schiver is among the many American farmers rooted in tradition but attuned to the new challenges facing agriculture.

"I was scared to death for a while," Mr. Schiver, 33, says when he recalls how he went into debt so he could begin farming on his own. "I'd never borrowed anything before."

That was in 1960, when he had a chance to rent 653 acres near Casey in east-central Illinois, and negotiated a loan so he could buy livestock and some used equipment.

Those 653 acres have grown to more than 1,665 (he still rents most of the land, but owns 603 acres) and he now views capital financing as most other businessmen do: "If you're making a profit by borrowing money, you can't afford not to borrow."

dividual farmers will increase rapidly in coming years.

Farms with sales ranging from $40,000 to $100,000 or more will need to finance annual production expenses totaling 50 to 70 per cent or more of those sales. Thus many such farms will require $20,000 to $70,000 or more in operating capital yearly, plus financing to maintain and increase their stock of land and other production capital.

Farmers will meet their financing needs from one or more of at least four sources: farm earnings, nonfarm earnings, equity funds from nonfarm investments, and loan funds.

Some recent estimates indicate that of the total net income from farm and nonfarm sources available to farmers, about one fifth is used for financing the farm operation. Thus, of the annual cash flow of approximately $46 billion that is projected to be necessary to finance agriculture by the end of this decade, an estimated $9 billion to $10 billion will come from farmers' own income from nonfarm and farm sources.

This obviously leaves a big gap to finance from other sources. Most of the financing needed for agriculture in the years ahead will have to come from borrowed funds. In

Secretary of Agriculture Clifford M. Hardin sees marketing, financing and technology as important elements of the major change now under way in farming. His listener here is Assistant Secretary Clarence D. Palmby.

He grew up on his father's farm and drove a tractor when he was in the third grade. But he can't recall when he first started working on the farm. "You don't know when you start," he says. "You just grow up with it, really."

Last year, Mr. Schiver was one of four national winners in the "Outstanding Young Farmers" competition sponsored by the U. S. Jaycees.

He grows corn and soybeans, and raises beef cows and hogs.

Asked whether he had ever thought about doing anything but farming, he replies: "Not seriously. This is where my roots are."

Mr. Schiver doesn't believe family farms are giving way to large corporate operations. "A farm needs personal attention," he says.

But he does see individual, smaller farms growing larger through expansion and more efficient operations. His own farm, for example, has an automated feed lot he built in recent years to handle 400 head of cattle.

When he first began farming on his own, he devised a way to run two tractors in tandem to save on labor costs. It was two years before he bought his first new tractor.

His equipment inventory has since grown rapidly.

He operates the farm with only "one and a half men besides myself." That means one full-time employee, plus a helper for the spring planting and fall harvesting—an indication of how agriculture's former labor-intensive status has changed.

In planning production, "I watch the market and play it by ear," Mr. Schiver reports. But he adds quickly that he is not entirely happy with that approach.

"I need more training in marketing," he says. "I would like to take some courses on that. Farm economics and marketing are things I wish I knew more about.

"Farming is one thing but managing a farm is something else. It takes ability in both fields."

Mr. Schiver puts in a long day farming, but spends as much time as he can with his family—his wife, his sons aged 12 and 7, and a daughter, 10—and in community activities.

He's been on the local school board, and on various boards of farm organizations and service agencies.

Mr. Schiver says he has no plans for incorporating, but might consider it some day if his sons want to go into farming with him.

You wouldn't risk buying overseas insurance coverage either here or there, if you knew about the third choice.

American businesses with foreign subsidiaries are constantly confronted by the question: Are we better off buying our foreign coverage here or abroad? They continue to hear talk about devaluation, nationalization, blocked funds, comparative costs, uniformity of coverage, etc., etc., etc.

Actually, there isn't much to debate. A reexamination of the essential facts makes the answer pretty clear.

Laws and taxation make buying here seem risky.

The insurance laws of foreign countries can present a formidable stumbling block. Many prohibit non-admitted insurance, though the

degree to which the law is enforced may vary widely. But the law is the law, and breaking it is hardly a desirable choice.

The tax situation may present a problem too. If you buy coverage here for your foreign installation, most foreign countries won't allow the premiums as a deductible expense.

And just to complicate matters, if you collect for a loss under a non-admitted policy and send the money over there, your foreign subsidiary might have to classify that money as income under local tax laws.

At first glance, then, the answer seems simple. You don't want to violate foreign laws. And you're not anxious to complicate your tax status. So you'll just have to buy insurance in that foreign country, and let it go at that. Right?

Buying there leaves problems of coverage, comprehension and control.

Unfortunately, you still want what you want, the way that you want it.

You want coverage as complete and all-inclusive as you can get here at home. But you just can't always get it abroad. You find, for instance, that no riot insurance is available on an admitted basis in Germany. Or that spontaneous combustion is not covered under South American basic fire policies.

And you worry a lot. You worry about the coverage you might not have, and might not know about, because you can't interpret the policy language. You're not really sure what "extended coverage" means in Portuguese.

You want control. You want to know, not guess, about what's going on over there. You want your own home office's administrative policies to apply. Everywhere. And you're not getting it.

As if having 50 sets of state laws weren't enough, now you have to be an expert in the languages and legal loopholes of foreign countries as well.

So just deciding to buy your foreign coverage overseas, though it seems so necessary, simply isn't good enough.

The answer to the dilemma: the right American carrier, with the right international setup.

It's the way to have your cake and eat it.

Here's what the right company can do for you.

They can have their foreign affiliates provide local coverage wherever required. And bill it to your foreign subsidiaries. Which will cover both the legal and the tax problems.

They can fill any gaps in coverage with a Master Policy. So you get what you want. Uniformly. And it's in English. So you know exactly what you're getting.

They can keep you informed about changes in local laws and conditions. And advise you on what to do about them.

They can, if you wish, include your American installations under the same Master Policy. So the decisions you make will apply everywhere.

They're at the other end of your telephone line. So you can have ready communication. And control.

Best of all, they may actually save you money. Such a package can be an attractive one, and may earn you a favorable rate. And you can avoid overlapping coverages, so you don't waste premium money.

The problem is finding that right company. But you probably won't have to look very far.

The Continental Insurance Companies

Continental Insurance • Firemen's of Newark • Fidelity & Casualty • Commercial • Niagara • Seaboard F. & M. • Buckeye Union • American Title • National-Ben Franklin Cos. • Boston Old Colony • Pacific Insurance • Glens Falls Cos. •
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The Future of Farming *continued*

order to insure their availability, a number of improvements are needed in lending institutions and practices. Several appear feasible and imminent.

Unified or one-stop credit services will become more commonplace. The farmer and his lender will work out together the farmer's needs for short, intermediate and long-term credit. Repayment will be scheduled out of projected earnings.

In a similar vein, there will be an increased tendency to work out credit programs instead of the farmer's looking for individual loans when the need arises. This will mean drawing rights on a line of credit, programed repayment, and a continuing arrangement between farmer and lender for obtaining credit.

New safety standards

Both the unified lending and the programed credit will require some changes in lenders' attitudes as to what constitutes safe lending. Also required may be certain revisions in the rules and criteria of lending institutions and their regulatory agencies.

Banks—especially small country banks—face increasing problems of legal limits on loans to individual farmers. They stand to lose big customers, by choice or by default, to other lenders—perhaps production credit associations or large city banks.

The pressure on country banks' fund supplies will increase; there will be continuing efforts to ease it by such means as branch banking, correspondent relations, discounting through the Federal Reserve banks, and devices for attaining more direct access to central money markets.

Moreover, the capital intensity of production coupled with some separation of use and ownership of assets will have another result: More lenders must be prepared to extend fairly substantial lines of credit or drawing rights based on analysis of the repayment capacity of the farm operations rather than on asset security. In effect, this is a challenge to put lending on a more rational basis. But it will require a higher degree of managerial skill on the part of both the farmer and the lender.

A recent significant development is the joint loan arrangements of the Farmers Home Administration with private lenders. The agency will provide subordinating liens, similar to second trusts, on mortgages and farm operating loans. It is estimated that this procedure will have the effect of extending farm operating funds by some 30 per cent this year.

Advances in technology

Further technological change in agriculture can certainly be anticipated, but its character may differ from what it has been in the past.

Increase in output per farm worker has continued in an unbroken line for the past 28 years. In fact, individual productivity has increased more in agriculture than in any other major industry in this country.

But there are those who feel that in the future, productivity may not show the phenomenal increase of the past two decades. They point out that much of the increase came from concentrated exploitation of several decades of research, and that much of that knowledge has been put to use.

It would be a mistake to envision future technology as going only in the direction of applying more and stronger fertilizers and pesticides, or developing more massive equipment. Certain advances will occur along this line, but others will be aimed primarily at a cleaner environment or reduction of hazards to human and animal life.

The Department of Agriculture and the land grant colleges and universities, along with industrial laboratories, are researching such fields as blight-resistant crop varieties, biological controls of pests and diseases, insect sterility and hormone attractants. Used in conjunction with pesticides, these methods should provide a more integrated and advanced system of pest and disease control.

While it is natural to believe that the more spectacular changes in farming have already occurred and that future changes will come along at a more modest rate, we do not know what wonders may lie ahead in chemurgy, artificial photosynthesis and hybridization. In 1843, it must be remembered, some people felt the director of the Patent Office should resign because there was nothing important left to invent. END

From Limousines to Casaba Melons

They're all in a day's work to this small band of experts who serve as traffic managers for the U. S. export-import trade

Suppose you are a customs broker and foreign freight forwarder.

Suddenly, one cold mid-December day, you get word that 10 crates of casaba melons from a Spanish shipper have hit the pier with no advance notice. Then a letter arrives from Spain. It says, in effect: "Please keep one crate for yourself as a Christmas gift. One is for the President of the United States and the others for the following list of my customers. Bill me all costs."

What would you do?

The succulent Spanish winter melons are not only perishable in the freezing weather but subject to regulations of the Agriculture Department's divisions of quarantine and entomology—and Customs Bureau red tape. And time, of course, is short.

This is no hypothetical case.

The customs broker involved drew on his long experience in dealing with government agencies. He cleared the White House gift and the State Department took over delivery. He paid all duties and inland freight on the crate to Washington as well as on the eight crates to the lucky customers all over the country, arranging for special care to assure unfrozen arrival by Christmas.

Finally, he picked up his own crate, anticipating an unusually tasty treat for his Christmas guests. He found only one melon buried in the excelsior. The rest had been pilfered on the pier.

Telling the story now, he relates ruefully that the Spanish shipper never did reimburse him for his costs, although they had done business for several years.

"That beautiful casaba winter melon," he says, "was sweet, but for me it was bittersweet—especially when I figured out that it cost me $59 a slice for my family and guests for Christmas dinner."

Quasi-governmental

Red tape, collection losses and pilferage are not the only problems faced by customs brokers, whose field is imports, and foreign freight forwarders, who handle exports. (Many firms perform both functions.)

Eighty to 90 per cent of U. S. imports and exports pass through their hands. Their expertise releases importers' and exporters' staffs for their major role of merchandising.

Customs brokers and freight forwarders enjoy a quasi-governmental status. Without them, the Customs Bureau would have to provide an enormous amount of technical guidance and consultation to importers and exporters.

Congress, recognizing their vital contributions, has long required the Treasury to license customs brokers and the Maritime Commission to license foreign freight forwarders. Some 3,000 licensees have met the rigorous federal requirements

Customs brokers help importers select customs classifications as to rates of duty for each product imported. They calculate duties and evaluate the way in which Customs appraises merchandise. They handle bonding requirements, arrange for storage, negotiate marine insurance, arrange for inspection services, and handle inland distribution.

Foreign freight forwarders arrange ocean and air transport, negotiate U. S. government export licenses, advise clients on world-wide customs requirements, prepare consular invoices, assist clients in buying and selling foreign exchange, prepare drafts and documents and arrange export packing.

In short, the brokers and forwarders serve as international traffic managers for U. S. importers and exporters.

Cold War coup

They must be able to deal satisfactorily with foreigners in all sorts of situations.

For example, several years ago Soviet Foreign Minister Andrei Gromyko was about to return home from an appearance at the United Nations.

Shortly before he left, he wandered into a New York showroom and was overcome with an irresistible yen for the fanciest of new cars—a most expensive limousine, equipped with every luxury from a built-in bar to television.

Naturally the dealer was delighted, and promised shipment within the week, shortly after the diplomat's departure by plane. He called his foreign freight forwarder to arrange the details.

Then, consternation! The Commerce Department ruled that the limousine did not meet government requirements for an export license. License denied.

But years of learning how to snip red tape paid off. After hours of working through State Department channels, the forwarder reached the right official on export policy to the communist bloc.

He put it something like this: "Doesn't the State Department realize what a publicity windfall it has here? Imagine what the press will do with it—a $20,000 automobile for a peoples' commissar to ride down the streets before his ragged countrymen."

The State Department saw the point, the export license came through and the beautiful capitalist toy went on its way.

The story went around the world. Of course, it drew a rebuttal from the communist official. The car was to be used by visiting American dignitaries, he claimed.

But the car dealer and the forwarder knew the true story, and the image of the communist servant of the people grasping for royal splendor was on the record. END

MORRIS VICTOR ROSENBLOOM, *author of this article, is president of American Surveys and director of the Washington office of the National Customs Brokers & Forwarders Association of America, Inc.*

BUSINESS A LOOK AHEAD

BY GROVER HEIMAN
Associate Editor

AGRICULTURE

The threat of more stringent pollution regulations is intensifying the hunt to find a way to use more of the nation's whey, which weighs out at about 22 billion pounds a year.

Between a third and half of Miss Muffet's staple, a cheese by-product, is now reprocessed, usually by air drying, for use in the food, feed and pharmaceutical industries.

For economy reasons, it has been a frequent practice to dump excess whey, which is 93 per cent water, into sewage systems. But it is loaded with nutrients and ecologists argue it plays havoc with streams.

Unless adequate sewage disposal is available, a cheesemaker who can't otherwise get rid of whey has a serious problem. As a result, some small cheesemakers have actually gone out of business, and more may—along with some larger firms, located far from processing plants.

The cost of an air drying processing facility is beyond the means of smaller firms, and alternatives are being considered.

For example, the Agriculture Department's Agricultural Research Service hopes to make trucking of whey to plants more economically attractive. Whey is perishable and for trips over four hours must be refrigerated.

One pilot study at a cheesemaker's plant is testing a reverse osmosis technique that reduces water content by more than 65 per cent, while retaining the nutrients. Of the 7 per cent whey solid, 5 per cent is protein, so this could reduce the world's protein shortage by approximately a half billion pounds annually.

CREDIT AND FINANCE

Businessmen can anticipate continuing heavy competition from Washington this year for the supply of credit in the private market.

In fiscal 1969, federal and federally assisted borrowing accounted for some 12 per cent of the total credit flow. But the Treasury Department estimates it is now running at 30 to 40 per cent.

Bruce K. MacLaury, deputy under secretary for monetary affairs, says the "largest part of the increase represents the explosion of guaranteed and insured loans, together with loans by government-sponsored agencies, which are scheduled to rise from $13 billion in fiscal year 1970 to $30 billion in fiscal 1972."

These programs "are pre-empting a significantly increasing share of total credit available to the economy," he says.

FOREIGN TRADE

Changing eating and shopping habits of newly affluent foreigners are creating prime markets for food processing and packaging machinery.

The Commerce Department's Bureau of International Commerce is telling U. S. manufacturers of such machinery they can expect an 11 per cent annual increase in foreign demand for their products.

Robert L. Pritchard, director of BIC's export sales program, predicts that the $576 million in exports in 1970 can zoom to $975 million in 1975.

The export market for food packaging machinery alone is expected to reach $480 million by 1975.

This country is the leader today, but Commerce Department officials warn that while the industry has a "major opportunity for growth," its competitive position could be lost quickly to more aggressive foreign suppliers.

HUMAN RELATIONS

Don't be surprised to see more and more firms listing their work forces in terms of dollars-and-cents assets on annual reports.

Some companies in the United States, Canada and Japan already are doing so by including investments in people in their capital budgeting and financial reporting systems.

The R. G. Barry Corp., a Columbus, Ohio, leisurewear manufacturer, for example, says it "has rejected the conventional return-on-assets approach because it does not recognize human investments."

In the first quarter of 1970 the company carried a book value of $1.76 million for its 147 managers and 425 factory and clerical personnel. It is following a program sponsored by the University of Michigan's Graduate School of Business Administration and Institute for Social Research.

MANUFACTURING

Steel service centers expect their sales to grow at a rate of 7 to 7½ per cent, compounded annually—twice that of the steel industry as a whole.

So reports the Steel Service Center Institute. And its president, Robert G. Welch, says that growth estimate would be "most conservative" if possible changes in operating patterns of steel producers take place.

In the future, the Institute says, producers "may concentrate on high volume production, limiting the amount of specialized work they perform on orders to get away from any semblance of job-shop type operations."

Accordingly, service centers are increasing their stress on pre-production processing services and the "cost-of-possession" advantages the centers offer—which the Institute says can mean as much as 40 per cent of invoice price to manufacturers.

Some 1,600 service center outlets supply metal needs of over 200,000 U. S. manufacturers.

MARKETING

Fancy decor isn't going to be high on the improvement list of self-service general merchandise stores, if store owners put a lot of credence in the findings of a landmark survey.

The Mass Retailing Institute, in cooperation with Du Pont's consumer products division, recently completed the first study of consumer buying patterns in such stores and turned up some rather interesting facts.

Most important factors in determining where they shop, consumers said, are quality of merchandise, then variety, followed by pricing. Least important are, in descending order, store lighting, parking ease, arrangement of merchandise and store appearance.

About half of those who buy at the stores are blue collar workers between 25 and 44 years of age, the study showed. Eight out of 10 are married, live in a house and own one or more autos. The median annual family income: nearly $10,000 a year.

NATURAL RESOURCES

By the year 2,000, U. S. population is expected to rise 50 per cent, but demand for resources such as metals is expected to quadruple.

That's the word from many experts, including Undersecretary of the Interior William T. Pecora, who until last May headed the U. S. Geological Survey.

For example, Dr. Pecora says, the U. S. economy at the turn of the century will need annually 7.5 billion tons of iron ore; 1.5 billion tons of aluminum ore; and one billion tons of phosphate ore.

With many parts of the nation already facing water shortages he sounds this somber prediction for 2,000—triple today's demand for water.

His summation: "We must settle for conservation with controlled preservation rather than for whole preservation. . . ."

TRANSPORTATION

Air carrier service to smaller communities is going to cost the taxpayer more this year and possibly for years to come.

A general slowdown in travel and steadily rising costs for the carriers have combined to raise federal subsidies, which had been on the decline since 1963.

The Civil Aeronautics Board reports that fiscal year 1971 subsidies for local service carriers in the 48 contiguous states totaled $58.6 million, up from $34.3 million in fiscal 1970—a 70 per cent jump.

Alaskan carriers received $4.6 million, nearly $300,000 less than in fiscal 1970. There was no subsidy in Hawaii.

Carriers flying subsidized routes in the 48 states are Air West, Allegheny, Frontier, Mohawk, North Central, Ozark, Piedmont, Southern and Texas International.

Large domestic and international airlines have been operating sans subsidy for many years, but that may change.

CAB Chairman Secor D. Browne reportedly is sympathetic to the idea of subsidies for marginally profitable routes in the Caribbean and Central America.

LESSONS OF LEADERSHIP

PART LXXV

John Thomson of Barclays Bank Ltd.

Five thousand branches in 50 countries

If you saw John Thomson on a dusty road in Idaho—or anywhere—you'd be apt to say, "There goes a British banker."

And you would be dead on the money.

A tall, craggy Englishman, wiry and as resilient as a bull whip, seemingly dour but actually a most humorous human, Mr. Thomson has climbed the ladder of banking to one of its highest rungs.

He is chairman of Barclays Bank Ltd., a banking system which lists $17 billion in assets and which is exceeded world-wide in the amount of money it handles only by the Bank of America, Chase Manhattan and First National City Bank of New York.

And if you *did* see him in this country—or almost anywhere—and thought him out of his business element, you would be dead wrong.

In numbers of branches and areas of operation, Barclays is the biggest of them all—nearly 5,000 branches in some 50 countries.

Now it is expanding into the American banking scene. It has 22 branches in California and three in New York.

John Thomson was born in 1908, destined to be a banker. His family had opened a bank in 1771 and sold it to Barclays before the turn of the Twentieth Century. To prepare for banking Mr. Thomson went to Magdalen College, Oxford University. He worked through various branch jobs and became chairman of Barclays in 1962.

He has served his kings and queen in dozens of high capacities during war and peace.

With Barclays now an American bank, as well as a British bank, NATION'S BUSINESS sent an editor to London to interview him.

Mr. Thomson, Barclays Bank of California already is the 468th largest of 13,684 banks in the United States. What further designs do you have on us poor Colonials?

As I get older I know less and less about more and more, but I can answer that question, and quite simply too.

We naturally hope to expand our business in California and we're prepared to go anywhere we can to increase the profitability of the Barclays Group. We have been in New York for many years under Barclays D.C.O.—which is our overseas operation. Several years ago we established Barclays Bank of California, a separate company entirely. We set up offices and bought some very fine existing banks.

We wanted to achieve a better balance of our world-wide business and we had tremendous confidence in the future of California and of the U. S. A.

Any particular reason for picking California over, say, Florida?

Our way of life has always been branch banking. Barclays specializes in branches and California is the state for branch banking in the United States.

Do you note any particular differences in American and British banking?

Basically, they're very much the same—more so than supposed.

Our branch managers in California are a terribly accommodating lot. They'll do almost anything for our

customers. Here in the U. K., we go to the extremes, too.

Up in a village in the Chilton Hills last year the electric power went out. Refrigerators switched off and Christmas turkeys were threatened. It was quite a bad time. And do you know, the people of the village went to the Barclays branch and asked the manager if they could store their turkeys in the bank vault? Said it was the coldest place in town.

The manager said, "Bring them in." And he was right in doing that. Good piece of business, even if our vault and bank notes did smell of fowl for a time.

Over here, bank managers sometimes have been accused of being a gloomy race. There was a particularly gloomy old manager in one of our branches—Oxford, as a matter of fact. A friend took his son in to open an account and the lad had a good look at the manager and commented, "If he's as gloomy as that when I pay money into my account, what's he going to be like when I take some out?"

Mr. and Mrs. Thomson's hobby is steeplechasing and they have had great success. Proud Tarquin won the Guinness Handicap Chase at Lepoardstown, Ireland, earlier this year.

Banks in America are probably more standardized than banks in Britain for the reason that Americans prefer standardization and Britons are possibly more individualistic. Also, American banks are more government-regulated.

But let's get back to bank managers, if I might.

In some parts of England it's considered a good thing to be seen coming out of the manager's office because you must be somebody if you've had an interview with the manager.

In another part of England if you were seen coming out of the manager's room they'd say, "What's gone wrong with old 'so-and-so'?"

We have some small, out-of-the-way branches where chaps won't leave the pavement—you Americans call that the sidewalk—and walk into the bank until the customer who's already in there has come out. It would be considered prying into the other chap's affairs.

One of the sad things Barclays has had to do recently has made for standardization. That is mounting high glass barriers to protect our tellers from attacks by thieves and cranks. The British crime rate is, unfortunately, increasing. Some of our older customers say they can't hear our tellers now, and others say they feel as if they are a long way off from the tellers. But on the whole the customers have been good about the barriers and, well, anything is better than having a lot of ammonia squirted by bank robbers into the eyes of our tellers.

Why do you do business in some of those strange places—such as Thabazimbi, Umzimkulu and Ife—where you have branches?

Some of the answer lies in history, in that we are a synthesis of a large number of banks that have been merged or acquired, and we still have the branches of those organizations. The rest of the answer lies in deliberate policy to achieve a good spread. We feel we have done this.

You've seen our advertisement which shows barren countries and carries the caption, "If you cannot find a Barclays, you're lost."

We took on some 750 offices two years ago when we acquired Martins Bank here in Britain and increased our branch number considerably.

Mr. Thomson, do you expect to overtake Chase, the Bank of America and First National City?

I would not have set that out as one of our main objectives. Today the emphasis has gone off size for the sake of size. There is more concentration on profitability rather than on magnitude.

Are you happy, then, to stay fourth biggest if you're turning a good dollar? Or I should say a good pound?

I think my stockholders are more interested in profitability than in rows of naughts on the top left-hand side of the balance sheet.

Tell us a little about the huge British bank mergers of a few years ago.

The first move was the acquisition by the National Provincial Bank of the District Bank, which came as a surprise. This was nearly 10 years ago.

Then in more recent days, the National Provincial and the Westminster came together. We wished to merge Lloyds and Martins with ourselves, and make what we thought would be a superbank, but that was referred by the government to the Monopolies Commission, who advised against it.

The outcome was that we acquired

Martins in double-quick time—by the middle of December, 1969.

Do you foresee further mergers of the larger British banks?

Further major mergers are very unlikely in the near future.

Bank mergers haven't been so extensive in the United States, have they?

No, your whole philosophy has been antitrust and for a spread. The main objection to the proposed merger of Lloyds with ourselves was simply that there would be insufficient choice of banks for the general public and it would be getting nearer to a monopoly situation. We pointed out that the reduction of the number of banks in Holland had, if anything, sharpened competition.

But don't overlook the fact that most of your big American banks are products of mergers. They have extraordinary names which indicate they are composites—First National City, Chase Manhattan, Morgan Guaranty Trust Co. Anybody coming off another planet and suddenly looking at a list of the major American banks would think there had been an extraordinary distortion of language.

Barclays gives tremendous autonomy to branch managers, doesn't it?

We have decentralized our business into districts which are presided over by local directors. They have a great deal of autonomy and in turn pass on a substantial amount of delegation to branch managers. Managers are close to their local directors. They know when to anticipate their local directors' decisions and they can give the customers quick answers.

We rather pride ourselves that imitation is the sincerest form of flattery and that other banks are moving to a regional basis in the same way we have.

Some of the explanation for the autonomy is historical, as is the explanation for the existence of many of our branches. When banks joined the Barclays family their partners continued as local directors and went on running their own show. My family was part of the assets—or liabilities—assumed by Barclays when they bought my family business.

Banks in Britain have long been able to keep their profits secret. Haven't you recently been required to publish annual statements?

Yes. The 1969 figures were the first to be published. Before that we merely said what our profits were, after we'd paid our tax and after we'd made allocations to reserves.

Are you comfortable with this new system where you must tell all?

Comfortable is a relative, or comparative, term. I think I am reasonably comfortable with it.

We tried tremendously hard to achieve uniformity between various British banks.

I have not always been in favor of disclosure.

There was a time when I believed that it could be damaging to one or more of the British banks and that this might come at a time when sterling was weak and really rock the boat.

One cannot cook the books of a bank in the U. K. We have the toughest possible auditors, with impeccable reputations, and this rules out any jiggery-pokery. But this does not mean that when you know disclosure is probable, you cannot prepare your lines of approach.

You're tied in with the Bank of America through your Barclaycard, a credit card interchangeable with the BankAmericard. How else are you hooked up internationally?

We and Bank of America are also partners in the Société Financière Européenne, which is a grouping with leading Dutch, German, French and Italian banks. We are a partner with other banks and Morgan Guaranty in a bank in Spain. We have just acquired a majority stockholding in Société Bancaire de Geneve in Switzerland and we have many other international linkups.

How is the Barclaycard-BankAmericard tieup going?

It's going tremendously well. We're not only developing the international link but we're getting an ever-increasing number of U. K. cardholders and retail outlets. We're very pleased with it indeed.

One of the greatest attractions, which people here may have been slow to recognize, was the saving the card brings in accounting and collection costs to retailers. There's the envelope and the clerk and the paper and the stamps which the retailer must provide for collection . . . and when the creditor chap doesn't pay, a reminder must go out. That's expensive.

People here were quick enough to see the convenience of having the card and having identification, but not the saving factor for retailers.

We're not terribly quick at accepting new ideas in this country.

My main objection to a credit card is that if you're buying what you chaps call gas, the boy who's working at the garage always puts his greasy thumbmark on the card. Like a good chap, he accepts the card; but my Barclaycard is always filthy.

One other thing that has been surprisingly successful is Barclays' dollar travelers check. I've been to bank cashiers in out-of-the-way places with these checks and because they are in dollars in dollar territory and they're pretty to look at, the girls smile sweetly and accept them without demur.

This is true in small shops in Hawaii and in little hotels in the States away from the big money centers.

I'm sure the girls had never heard of Barclays but the travelers checks were pretty and in dollars.

On Feb. 15, 1971, Britain's currency went to the decimal system. What did this do to banking?

The answer is: Not very much. It was a short headache. We had been through it elsewhere.

Didn't really cause nearly as much bother as there was when South Africa decimalized.

What about your adding machines and all your other machinery? Didn't they have to be changed?

Yes, but it wasn't all that difficult because it had been seen coming. A lot of our automation program has been with decimalization in view.

Speaking of changing the currency, I would have been very bothered if we'd gone to a lighter unit. I'm thankful we stuck to the pound, which is

worth a heavy $2.40. I know a lot of people don't agree.

Do you think the dollar is too light a unit?

Never commit such treason and heresy as to cast aspersions on the dollar.

Has Barclays managed to get things done which you feel put you a bit ahead of the Americans?

I never say that we ever did anything first because somebody always produces evidence that they did it before we did.

Mr. Thomson, how do you feel about the huge influx of American banks into Britain?

I think this is a splendid thing and I've always welcomed it. The role of sterling—it's an absolute cliché to say—has diminished. But London still claims to have a certain expertise and the fact that our American friends have set up business here has helped to retain London's status as a world money center. That's good for all of us.

Competition's always a good thing. It keeps us on our toes. It brings more work and more people of high caliber to London, which we welcome. And it brings more international corporations here to get fitted out with their requirements.

Is being a shrewd, canny Englishman handy in international banking?

I thought they were "shrewd, canny" Scotsmen, not Englishmen. But I don't know that I am. I hope so.

You were born to banking, weren't you?

Yes. My family never started a bank as such. But that's a boring story, a waste of time. Frightfully complicated about people marrying cousins. Terribly boring.

My forebears were partners in a small bank in Oxford. They were originally mercers and they turned the business into being bankers as well as mercers. They kept banking at one end of the ledger and silk knee breeches at the other. And then they became bankers to Oxford University. They sold their bank to Barclays at the beginning of the century.

Barclays' black eagle overshadows Lombard St. in the old "City" of London, the one-square-mile area devoted almost entirely to finance and other business.

Does a family heritage of banking help, and do you believe there's such a thing as ancestral memory?

Yes. We've got so many members of the old banking families in Barclays that we're quite uninhibited about kicking out the ones who aren't any good. But those who've remained in the bank have—I think—an extra sense of banking. I'm a great believer in heredity.

Look at the thoroughbred horse business. All those horse breeding chaps wouldn't put out their millions for fine animals if they didn't believe in heredity, would they?

Yes, I'm a believer in heredity but heredity will cost you a lot of money unless you weed out the ones who obviously are not going to be any good.

You're a great lover of steeplechasing, I understand.

Yes that's where my knowledge of heredity comes from.

Do you breed many steeplechasers?

As many as I can afford to keep on a farm in Ireland. I've also got my own farm here in England.

What's one of the good races that your horses have won?

Well the best horse I have is pensioned off at home, at one end of my garden. He won the Cheltenham Gold Cup.

I'm not allowed to compete at the Grand National Steeplechase. My wife thinks the Grand National is unfair to the horses.

Besides the steeplechasing, what do you do to relax? Do you take work home with you or that sort of thing?

I take work home with me but I don't always get it read there. I certainly carry it about.

I'm a keen gardener and farmer.

Your farm is a working one?

Yes. You wouldn't say I was a very good farmer, but I manage to make a profit. Not a very big one.

Mr. Thomson, getting back to the dollar: What do you think is going to happen to it in the next year or two?

I do not see it diminishing in importance. I have tremendous faith in the American economy.

What underlies the American economy makes it immensely strong and I've no qualms about it at all. I don't think there is such a thing as an economy with uninterrupted progress. You're bound to have setbacks. On the whole, I think they're very healthy things. END

REPRINTS *of "Lessons of Leadership: Part LXXV—John Thomson of Barclays Bank Ltd." may be obtained from Nation's Business, 1615 H St. N. W., Washington, D. C. 20006. Price: one to 49 copies, 35 cents each; 50 to 99, 30 cents each; 100 to 999, 17 cents each; 1,000 or more, 14 cents each. Please enclose remittance with order.*

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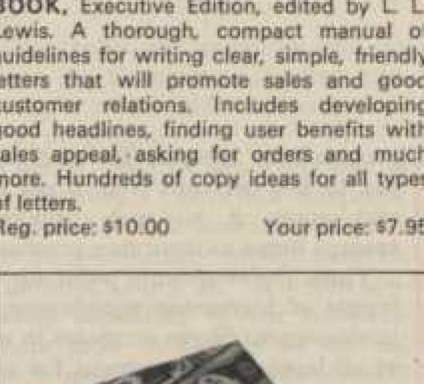

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Taxes: Still Headed in the

• When Texas legalized liquor by the drink this year, one of the first hands that reached out was the tax collector's. A 10 per cent levy was imposed on bar tabs as part of a package that also included increased corporate, sales and cigaret taxes.

• In Connecticut and Rhode Island, state income taxes were enacted for the first time—as legislatures reluctantly decided there was no other way to stave off fiscal disaster. Similar action is pending in Pennsylvania.

• After campaigning on a platform of no new taxes, Oklahoma Gov. David Hall obtained legislative approval of increases in levies on gas and oil production, on corporate and upper-bracket personal incomes and on liquor. He was one of 30 Governors this year to ask their legislatures to approve new or increased taxes.

• Gov. Walter R. Peterson of New Hampshire, rebuffed by his state legislature when he sought approval for a sales tax, said the action was "crippling" to "the government's ability to serve its citizens."

• As the two houses of the Minnesota legislature deadlocked over tax boost bills, the Minnesota Taxpayers Association reported "there's almost a tax rebellion here."

• Thousands of workers staged a protest march on the Connecticut state capitol in Hartford to protest pending proposals to increase the state sales tax to 6½ per cent from 5 per cent and apply it to such previously exempt items as insurance premiums.

These developments point up two trends of increasing significance for businessmen: Sharp increases in need at all levels of government for more and more revenues to meet skyrocketing expenditures, plus a stiffening of public resistance to higher taxes.

While antitax forces have won a share of the battles, the long-range outlook is not a promising one for taxpayers.

"I don't see anything but more taxes down the road," says Dr. Elsie Watters, director of state and local research for the Tax Foundation, a well-known nonprofit group that studies government financing.

At the federal level, the fiscal situation is somewhat more complicated but the long-range outlook is the same: a widening gap between income and spending, generating ever stronger pressure for new taxes.

(Because the economic recovery has not been up to Administration expectations, there is recurring talk about the possibility of tax cuts to put more purchasing power into the hands of consumers. But any such step, like the accelerated depreciation allowances recently put into effect by the Treasury Department, would be aimed at solving an immediate problem. The basic issue of federal financing—spending running far ahead of income—would still have to be dealt with eventually.)

On top of the growing tax problems posed for businessmen by local, state and federal spending trends, there is the prospect of a constant increase in Social Security payroll taxes.

What price Social Security?

In 1967, the Social Security tax was 4.4 per cent on a wage base of $6,600—amounting to $290 each from employer and employee. It since has risen to 5.2 per cent on a base of $7,800, or $405 each.

But, under legislation pending in Congress for a 5 per cent increase in benefits next June, the wage base would go to $10,200 next Jan. 1 and the tax rate to 5.4 per cent, for an increase of $145 each from employer and employee in 1972.

The rate would then go up in two steps to 7.4 per cent by 1977, for a tax of $754.80 from each on the $10,200 base. But that's only part of the story.

The same legislation provides for automatic increases in Social Security benefits. If Congress itself does not raise benefits in any year in which the increase in the cost of living exceeds 3 per cent, benefits would go up the following year by the same percentage as the inflation rate.

The increases would be financed by raises in the wage base above $10,200, with the base going up in the same proportion that the total amount of wages subject to Social Security taxes increased. That total for next year is estimated at $531 billion.

A House Ways and Means Committee projection indicates that the wage base would reach $14,100 by 1980, meaning that everyone whose earnings were at or above that level

Same Direction

would pay $1,043 in Social Security taxes, and the employer would have to match that amount for a total of $2,086 [see editorial on page 76].

That's at the 7.4 per cent rate. For self-employed persons, such as doctors, lawyers, accountants, the tax rates are higher and their payments on the escalated wage base would be higher accordingly.

There is a special irony in the fact that the tax increase aspect of the Social Security bill is being given relatively little attention, compared with the fanfare that accompanied personal income tax reductions enacted in 1969.

Personal exemptions, which climbed to $625 each in 1971, will go to $700 in 1972, producing a theoretical saving of $57 for a middle-income worker, with a wife and two dependent children, who makes $10,200 a year. But his Social Security tax would go up $145.20, for a net tax increase of $88.20, under the pending legislation.

Red ink everywhere

Everywhere the taxpayer looks, he sees governments awash in red ink.

Consider these situations:

• Federal deficits from 1961 through the current fiscal year will total $145 billion, with interest on the national debt a staggering $168 billion for the same period. The back-to-back deficits for the previous and the current fiscal years will total at least $45 billion, according to the most conservative, current estimates.

• Expenditures of all states in the current fiscal year are estimated at $102.1 billion, against revenues of $95.9 billion, for a $6.2-billion deficit despite a record round of tax increases. Some of that gap will be plugged by borrowing.

• Local government expenditures per capita jumped from $155 in 1959 to $163 in 1960 to $297 a decade later, the Tax Foundation reports. The biggest pressures for increased spending at the federal level stem from programs run by the Department of Health, Education and Welfare, including Social Security. HEW's expenditures, $52 billion in the 1969–70 fiscal year, were estimated at nearly $69 billion in President Nixon's budget for the 1971–72 fiscal year.

That total will probably end up higher as Congress considers proposals for major additions to various social programs.

Paul W. McCracken, chairman of the President's Council of Economic Advisers, has told business audiences that an increasingly urgent question of national policy is: "Will the productive capability of our economic system grow as rapidly as the demands upon it in the decade ahead?"

From the government viewpoint, he says, "We are becoming aware of the fact that, through the public sector, we have taken on programs that make an explicit commitment for growing amounts of resources in the future.

"Public budgets now extend far beyond the simple projects of old that we could take on or cut off as the taxpayers' mood dictated. They now embrace large programs that are ongoing and whose future expansion is already built in.

"When we price out where present federal programs plus those already proposed by the Administration will bring budget outlays in, say, five years, the striking thing is the extent to which they will absorb most of the probable growth in revenues from the existing tax system.

"We have, in that important sense, already mortgaged or committed the future growth in resources that our present revenue system would allocate to the public sector."

Non-Administration plans that are pending in Congress could add many billions more to the federal spending load. Bills to establish various types of health insurance programs that differ from one put forward by the Administration carry the biggest price tags—up to $77 billion a year estimated for a compulsory, national health plan.

And there are others, such as a national child-development program that has rallied support. Its cost would go from $2 billion in fiscal 1973 to $7 billion a year by fiscal 1975.

State and local governments, says Dr. Watters of the Tax Foundation, also have "a lot of commitments."

There is, she comments, "apparently no end to what some people can demand."

Government, she points out, remains labor-intensive and offers relatively little opportunity for applying modern technology to offset rising labor costs. And, as more government workers join bargaining organizations, those costs have been rising rapidly, she adds.

Continuing inflation, particularly in construction, is another problem that has helped drive up the costs of state and local government, and higher interest on bond issues is a related problem, Dr. Watters says.

While the precipitous increase in school enrollments of the 1950s and 1960s has eased, she sees slight chance that education costs will abate accordingly. Lower teacher-pupil ratios, higher teacher salaries, and advanced teaching equipment are among factors that will continue to keep pressure on school budgets, she says.

"No revenue to share"

Dr. Watters does not see sharing of federal revenues with states and local governments as the cure-all that many others do.

In the first place, she points out, the federal government is running a deficit and "there's no revenue to share."

She makes these other points about revenue sharing:

• With tax resources as scarce as they are, "it doesn't make sense to pass out money with no restrictions as to how it should be spent."

• The distribution would not be related to need. Communities that didn't need the money would get it while at the same time, "the federal government couldn't give enough to those with a big need."

• A revenue sharing plan would add

Taxes: Still Headed in the Same Direction

continued

to the pressure for increased federal taxes, and taxpayers would end up "trading off higher federal taxes for a hope that state and local taxes may go down or that state and local services will improve."

Dr. Watters' concern over the course of state and local taxes is echoed in a Bank of America report which asserts that "the financial problems of states and localities will prove to be chronic, not temporary," and adds that while "revenue sharing may help solve some of the problems on an interim basis, it cannot be the whole solution."

State and local guidelines

The report advocates these principles as "basic to any search for solutions to state and local financial problems":

- Spending decisions should be governed at the outset by some constant system of priorities. Governments simply can't raise enough revenue to meet all potential demands for public services.
- Taxes should be visible. A taxpayer should understand that he is the one paying for the services he receives—and he should realize just how much he is paying in all forms of taxes.
- Taxes ideally should be based on sources which reflect real growth in economic activity.
- Tax reporting procedures should be simple and as uniform as is consistent with the need to deal fairly with variations that are inevitable.
- Enforcement procedures must be simple and unambiguous.
- Taxes should lend themselves to easy, periodic review.
- No tax should be confiscatory.

Guidelines such as those will have increasing significance under the pressure for more and more taxes.

And that pressure is certainly there. It wasn't until 1956, 180 years after the founding of the nation, that total federal, state and local tax revenues reached $100 billion. But in only 11 more years, they passed $200 billion.

Estimates are that the $300 billion level will be reached this year.

END

Many government programs are open-ended affairs that have taken control of the taxpayer, instead of vice versa. Cost—whether he likes it or not—keeps going up, and so do his tax bills.

It's Time for "Accountability" in Education

We spend billions on our public schooling system; but what do we know about whether we're getting our money's worth?

We Americans are downright aggressive about the performance we demand of the products we buy.

We expect our cars to accelerate from a standing start to 60 miles per hour in a fraction of a minute.

We expect our baseball players to get a hit one out of three times at bat.

And we expect our telephones to work all the time.

Given this national trait, it is strange that we are passive about demanding performance of our schools.

Yet, passive we have been.

For example, one out of four youngsters who reaches high school drops out.

In addition, many graduates can't compose an essay in acceptable English or do basic sums in arithmetic.

Our instruction system has failed them.

If one out of four airplanes crashed between takeoff and landing, no one would fly. If one out of four autos went out of control, Detroit would be closed down tomorrow.

But our schools keep rolling along—doing the same old thing in the same old way.

Even if we demanded better performance, our schools would be unable to deliver.

Today, they don't know how to tell how well or how poorly they are doing.

Public education is one of the nation's largest industries.

From kindergarten through college, it employs close to three million people. And nearly one fourth of the population currently is enrolled in the public education system.

From 1947 to 1969, it increased its budget from roughly $6.5 billion to $68 billion—a 1,000 per cent increase. At the same time the gross national product increased only 400 per cent.

If education costs continue to climb as they have in the past, and our GNP continues its past rate of increase, spending on education would eventually equal the entire national product.

Big on input, little on output

Despite the size, scope, dollar investment and importance of the American educational system, it has been subject to few tests of its efficiency and to virtually no tests of its effectiveness.

As a matter of fact, of the billions it spends, less than one third of 1 per cent is spent evaluating its performance.

As a nation, we do know a lot about some aspects of our educational system. We know:

- How many teachers there are.
- What degrees they have.
- How much money they make.
- How old and how tall they are.

We have reliable statistics on the number of books in school libraries, the number and type of language laboratories and the number, age and height of the school buildings. We can pin down to the penny the per capita expenditures in each of some 20,000 school systems and state accurately how much each spends to service its debt.

What we don't know is how much student learning is produced by all these teachers, books, language laboratories, buildings and dollars.

We know a lot about input, but little about output.

In terms of learning, we can't describe how close our schools come to accomplishing what they aim to accomplish—or what any state or local community expects them to accomplish.

We have no measure of progress—or lack of progress—over a span of time. We cannot identify in any precise way the strengths or weaknesses of a single school or school system.

In the critical field of reading, for example, we do not know what it costs to increase a student's reading achievement level by one year.

All we know is what it costs to keep him seated one year!

This failure to have information on the quality of the school product—what the student learns—is not merely a serious gap in knowledge. Without it, few competitive pressures can be generated to which the school must respond.

Thus self-corrective forces are at a minimum, and much time is spent in pursuit of what is vaguely described as "quality education."

One striking exception is the college preparatory program.

Here there is a learning standard: How high the students score on the college entrance examination. Even though this measure is not fully utilized and is not always fully reliable, many school systems have responded to it by consciously improving their college preparatory programs, thus showing the power of an outside review to effect reform.

But adequate tests to measure how well noncollege-bound students have learned are almost nonexistent.

Who likes bad marks?

Many educators fear attempts at measurement. This is hardly surprising. No group likes to have its performance checked on and its failures flagged.

As a result, heated claims are made that attempts to measure performance will do dire harm to the schools—including dehumanization, thought

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DR. LEON LESSINGER, *author of this article, is a distinguished educator. He wrote the recent book, "Every Kid a Winner: Accountability in Education" ($7.95, Simon and Schuster).*

control, overemphasizing tests and other horrors.

The alternative, these critics insist, is the status quo.

It is a paradox that we, who are the most advanced nation in the world in technology and management, seem incapable of applying that know-how to education. We have allowed it to continue as a backward and underdeveloped industry.

Some of the important indications:

- Education spends least of all industries for research. Less than a fraction of 1 per cent of its dollar outlay goes toward finding better ways of doing things and checking up on its progress.

- It does not apply to planning, operation or evaluation the research and development already available.

- Education is administered by people largely untrained and inexperienced in management—and often fearful of it.

- It spends less than 5 per cent of its budget for instructional materials, equipment and supplies and more than 85 per cent for salaries and related benefits. Some large city school systems spend more than 90 per cent for salaries—and have difficulty supplying one book per student per course!

- It lacks an orderly pattern for cooperation on common goals among school districts, state education agencies, industry, universities, community groups and the federal government.

In the same way that our technological system is geared to produce a better product for the most economical expenditure of time, materials, space and machinery, we should be able to make education an increasingly more efficient and effective process.

Accountability is the name for a new movement in education which is designed to reach that goal.

Let's consider this movement to see why it is spreading rapidly and what it promises.

Accountability is the matching of intent to results. It means comparing what was actually achieved with what was planned.

It involves a careful comparison of dollars spent and student learning achieved.

It brings to school instruction the same flavor of inspection and feedback that an independent fiscal audit brings to school finance.

Accountability has three basic elements:

1. Desired student accomplishment.
2. Independent accomplishment audits.
3. Public reports.

Perhaps the most important element is feedback or knowledge of results. Without that there can be little, if any, improvement in performance.

Many yardsticks can be used to

measure results. Among them are standardized tests, situational tests and social indicators. For example, one yardstick might be the number of students who can get and hold a job.

Here are some examples of specific accountability goals that a school board might set:

- By 1974, the requirements used to accredit teachers shall be those showing a demonstrated relation to student learning.
- By 1976, 90 per cent of the children starting the ninth grade will achieve 90 per cent of the reading objectives adopted by the board.
- By 1976, each child entering an elementary or secondary school shall have a diagnosis made of his reading, writing, arithmetic and study skills. His weaknesses will be noted, and a learning treatment prescribed. The results of that treatment will be measured by independent audit. The objective is to prevent any child's failure.
- By 1980, each high school graduate shall have a salable skill of his own choice.

We have the tools

We already have the tools to make accountability both attractive and practical for schools. Two of them are considered here: Developmental capital and performance contracts.

Together, they link up spending to teacher performance and student achievement.

Business firms typically budget 3 per cent or more for improving their products, services, sales or capability. Our educational system should do the same.

Lawmakers and school boards should set aside 1 or 2 per cent of the school budget to develop improved teaching techniques. Those that are successful should be incorporated into regular classroom use.

If this were done, the improvement in our schools would be dramatic.

This is where the performance contract, with private enterprise or teachers, can be very effective.

What is a performance contract?

It's an agreement between a local school board and any agency that supplies instruction—and guarantees results. Usually, the supplier is a private business firm.

The contract provides that what the firm is paid depends on how well the students learn. Their performance is determined by an independent audit.

Performance contracting will work only with skills that can be defined and measured, like reading or arithmetic. It won't work, for example, with vaguely defined educational goals such as "maturity" or "good style" in English composition.

Answering four needs

The idea of contracting for products or services is not new—except in education. Its basic appeal is that it offers four things most educational leaders agree are desperately needed in education:

1. Quality control.
2. Knowledge of results.
3. Payment based on performance.
4. A foolproof way to get better, more cost-conscious teaching techniques into regular classroom use.

Performance contracting makes it easier to set up educational targets and to measure how close students come to reaching them.

Usually, it involves use of a learning center, separate from the regular classroom, where students are brought up to the mark. It is managed and operated by a contractor, who is paid only if he gets results with the students.

How much he is paid depends on how well the students do. For him, everything depends on results.

This approach fosters objective measurements of what students achieve. It encourages the good management needed to get results. It also allows a school system to experiment in a responsible way, at low cost, and with low political and social risks.

Its future looks promising.

In little more than a year, the sums invested in performance contracting have grown from $250,000 to an estimated $30 million. Most of this is federal money.

Many ways are being used to bring this new tool to our schools.

- In Camden, N. J., the local school system contracted with RCA Corp. to upgrade "expertise" in manage-

ment, instruction, business and personnel relations.

• In Philadelphia, Pa., Behavioral Research Laboratories is giving reading instruction to 15,000 children in 22 schools. The school system pays $40 for each child who advances one year in reading achievement. It pays nothing for those who don't.

• In Mesa, Ariz., and Stockton, Calif., another approach is being tried. Here the federal Office of Economic Opportunity has let a portion of a $5.4 million contract to study performance contracting—in this case with teachers, rather than an outside business firm.

But what of performance contracting's disadvantages?

The American Federation of Teachers feels it will:

• Mean loss of control over education by local school boards.

• Result in a narrowing of educational purposes to trivial and easily measured objectives.

• Put an emphasis on testing, with a tendency for cheating and teaching to tests.

The union expresses little confidence in business, arguing that its record is filled with mismanagement and poor product performance.

These arguments reveal no inherent defects in performance contracting, because it is no better than the planning it reflects. With proper planning, the problems can be avoided.

Several states are considering legislation to further the concept of accountability in education. Among them are Florida, California and New Jersey. Colorado already has passed a law which requires the state to pay the full cost of hiring an independent accomplishment auditor for its school systems.

Accountability in education has great potential because it stresses three fundamental rights:

First, each child's right to be taught what he needs to know to play a productive part in our society.

Second, the taxpayer's right to know what educational results his tax dollar bought.

Third, the school's right to be able to draw on talent, enterprise and technology from all sectors of society.

END

The New Proxy Warfare

Corporations are the targets for a small but noisy army of crusaders—who may not have won victories so far, but who may pose more of a threat than many businessmen realize

"I'm pretty much of a loner," says Rodney B. Shields, who has waged a one-man campaign to get corporations to hew to his line.

Rodney B. Shields is a mild-mannered 29-year-old Washington lawyer who sometimes talks tough.

He owns stock—one share each—in more than 30 corporations.

Last year, he forced them all to ask their millions of stockholders to vote For or Against a host of causes he champions.

One of the corporations is the Virginia Electric and Power Co. Vepco had to put before its stockholders a Shields proposal to set up a new Committee for Corporate Responsibility.

Among other things, the committee would have overseen:

- How well the utility curbs pollution of air and water.
- How fairly it treats customers who don't pay their bills.
- How wisely it uses its economic clout for social betterment of the region it serves.

Members of this batch of back seat drivers would have included civil rights leaders, conservationists, college professors, scientists and social workers.

Vepco urged its stockholders to turn thumbs down. It said:

"Any proposal to invite criticism from such a miscellaneous group without any fixed responsibility would in itself undermine public confidence in the soundness of the judgment of the Board and of management."

The stockholders agreed with the company, by a margin of 28,771,223 shares to 348,975.

Mr. Shields' campaigning at Vepco and other companies has been expensive to stockholders.

He estimates it has cost them, in all, more than $1 million. He says:

"I made several proposals to Western Bancorporation. The company says it cost around $34,000 to put my proposals to a vote. That covers extra printing costs, and tabulating the vote and legal fees—at $50 an hour.

"If you multiply $34,000 by 30, that would be $1,020,000."

Mr. Shields, a federal government employee, is only one of a growing number of corporate gadflies. Some are backed by well-heeled groups.

Among this fraternity are a conscientious objector from Yale, a Wall Street lawyer, another militant Washingtonian, and a Chicago M.D. who specializes in contreversial causes as well as internal medicine.

Mr. Shields is trying to hit as many corporate targets as he can.

"I'd like eventually," he says, "to be a shareholder in every electric company in the United States and every major bank."

If and when he is, he plans to send eye-opening proposals to all of them.

Other crusaders zero in on one or two bull's-eyes.

For example, Charles A. Pillsbury, 23, wealthy milling family heir and objector to military service. While a student at Yale (Class of '71) he helped found the Council for Corporate Review.

It has waged a bitter campaign to force Honeywell, Inc., to cease production of fragmentation bombs used by the Air Force in Viet Nam.

Honeywell stockholders said No to Mr. Pillsbury's proposal at their annual meeting in May.

Focus on GM

Robert Potter, chairman of the Social Criteria Committee of the Episcopal Church, has General Motors Corp. in his sights.

Mr. Potter, a Wall Street corporate lawyer, is a leader of the movement to get GM to pull out of South Africa because of that country's racial policies. GM has $125 million invested in plants there.

"We don't think that's the way to fight racial discrimination," says Roger Smith, GM vice president for finance. "We believe in fighting it from within.

"When we built our first plant there in 1926, all our employees were white. Now we have about 6,000 on the payroll, and more than half are black.

"Besides, if you do want to liquidate your investments without a serious loss, you don't hold a fire sale. And that's what it would amount to if our shareholders voted for this proposal."

Taking the company's advice, stockholders this spring rejected a South African pull-out.

Philip W. Moore, a 28-year-old graduate of Chicago University law school, is executive director of the Project on Corporate Responsibility, Inc., headquartered in Washington.

"We focused on GM, not because it's uniquely bad," a spokesman says, "but because it's the world's largest corporation—and thus an appropriate target."

Among other things, Mr. Moore's group proposed that GM dealers, employees and customers nominate and elect three directors to GM's board. It defines "customers" as any first-hand owner of a GM-made bus, truck or auto.

"We'd have to go to 115 countries and poll 30 million customers, 800,000 employees and 20,000 dealers," GM's Vice President Smith points out. "Apart from being almost impossible, we think it's illegal, if they don't even have to be shareholders."

This, too, got the heave-ho at GM's annual meeting, May 21.

Beginning of an avalanche?

So far, such offbeat proposals to deal with a raft of social or ecological issues have reaped reams of publicity. But they've made little impact on stockholders—or corporations.

Nearly all the proposals have been turned down by lopsided votes.

If so, do they pose any real threat to American business?

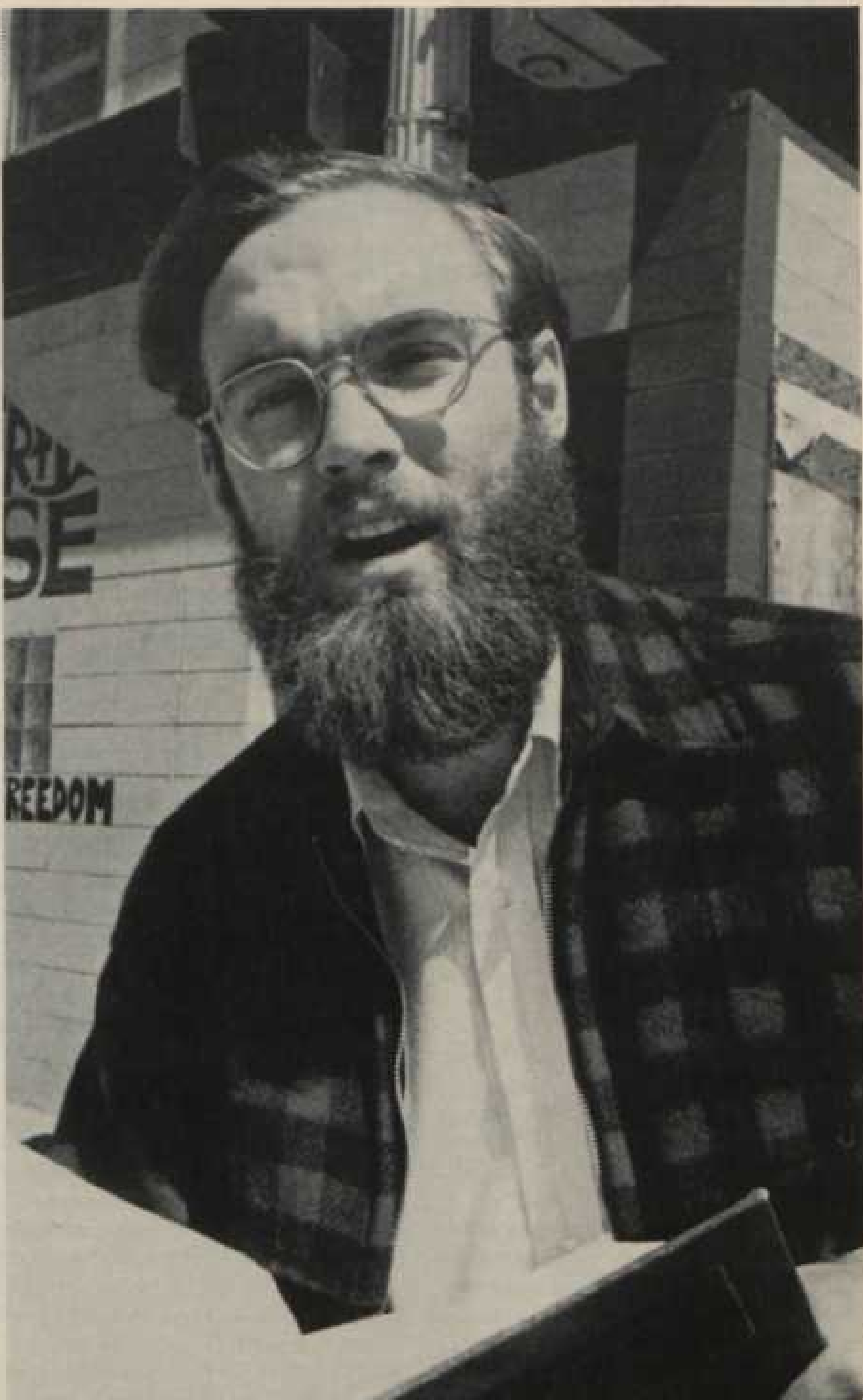
Some companies say No.

"We don't feel harassed by a suggestion to improve our operations," says a Vepco spokesman. "We invite suggestions from stockholders. We hope they'll always communicate with us."

But not every executive takes the development this lightly.

"My personal feeling is that one guy is no big problem," says the corporate secretary of one of the nation's largest manufacturing firms.

"The thing that scares me is this. What if a lot of people wake up to the fact that here is a way to get their pet ideas before a couple of million peo-



"I don't have to worry about money, but I have general goals of doing something to help solve the problems of the world." That's how wealthy Charles A. Pillsbury, a founder of the Council for Corporate Review, has described his chosen mission in life.

ple—just by writing a few letters and making proposals that go into corporate proxy statements?

"The company and the stockholders would be snowed under."

That possibility also alarms Theodore Miller, secretary, Ramada Inns, Inc.

"Unless the Securities and Exchange Commission tightens its rules on what must go in proxy statements—and lives by them—we're going to have to publish proxy statements the size of a small telephone directory," he says.

Companies are stuck

One thing is sure. The number of controversial proposals is growing.

Mr. Shields estimates he's sent more than 200, all told, this year to companies in which he owns stock.

"Next year," he says, "I'll send twice as many. Maybe even more."

If he does, most companies will be stuck with them.

When a shareholder offers a suggestion—and asks that it be voted on at the annual meeting—the corporation has little choice. It almost has to include his proposal in the proxy statements mailed to all shareholders.

Of course, it can ignore him. But then it faces the danger of being hauled into court.

Or it may appeal to the SEC. Under SEC rules, some stockholder proposals may be spiked.

For example, if they are "primarily for the purpose of promoting general economic, political, racial, religious, social or similar causes."

Nor does a company have to allow stockholder proposals to butt in on the normal, day-to-day conduct of business. These, too, may be omitted from proxy statements, SEC rules say.

But of late, the SEC has gone soft on enforcement, some critics claim. As a result, it is putting its imprimatur on proposals it once would have scotched. Even when the SEC's foot has been put down, the courts have shown an inclination to stomp on it.

Recently, the U. S. Court of Appeals for the District of Columbia ruled that the SEC had no right to permit Dow Chemical Co. to reject a stockholder proposal to bar it from making napalm.

Both Dow and the SEC thought the proposal beyond the pale. It seemed to come under that prohibition against proposals made to promote a variety of political and other causes.

Not so, said the court.

The SEC took the decision to the Supreme Court, which has it under review.

The anti-napalm proposal was offered by the Medical Committee for Human Rights. Its national chairman, Dr. Quentin Young, who is one of a group of Chicago physicians who donate their services to a Black Panther health clinic, says the committee "is concerned with health care problems of the poor and middle class."

It set up first aid stations for demonstrators who rioted in Chicago during the 1968 Democratic convention and those who disrupted Washington last May.

Feeling the bite

Businessmen take varying attitudes on the costs of the new anti-corporate crusade.

In GM's case, the shareholder proposals, contested by management, took up about 25 pages—or more than half—of its "Notice of Annual Meeting of Stockholders and Proxy Statements."

This means added printing, postage and tabulating costs.

The $100,000 expense this entails is no major irritant to GM. "We don't want to seem willing to stifle stockholder suggestions, even if they do cost money," a spokesman says.

However, smaller companies feel the bite more. They're angrier about what seem to them to be frivolous campaigns conducted at their stockholders' expense.

Mr. Miller of Ramada Inns spells out what such campaigns cost his company and its stockholders:

"We pay a flat, minimum fee to have the vote tabulated at our annual meetings," he says. "This is done by our transfer agents.

"Their minimum fee covers three proposals. That's usually all we need. It takes care of the election of directors, picking an independent auditor to go over our books and one other proposal which management wants to bring before its stockholders.

"But this year, thanks to Mr. Shields, we had to put eight proposals before the stockholders.

"We had to pay five cents per proxy vote for each one of those extra five proposals. So it cost us 40 cents to have each proxy vote counted—instead of 15 cents.

"A lot of retired people depend on this company's dividends. I don't like to spend $10,000 to $15,000 of their money to fight proposals that don't make any sense anyway."

At GM's annual meeting: Donald E. Schwartz, Georgetown University law professor and adviser to the Project on Corporate Responsibility's GM campaign

Rev. Andrew Young of the Southern Christian Leadership Conference scores Gulf Oil's investment in Angola at its stockholders' meeting.

Small stockholders who insist on sticking a big oar into management matters aren't new on the corporate scene.

Some have been at it for years.

Mrs. Wilma Soss, president of the Federation of Women Shareholders in American Business, Inc., is one. New Yorkers John and Louis Gilbert are equally active. But their proposals usually deal with business issues like pension plans, executive pay, and election of officers or board members.

The new breed, like Mr. Moore, Dr. Young or Rodney Shields, focus more on social, political or ecological issues.

"I'm impressed by what Louis Gilbert has done," Mr. Shields says. "We both want to get the malarkey out of annual reports. We agree 100 per cent on that. But our philosophy's quite apart. For example, he thinks Ralph Nader's a socialist. I wouldn't buy that!

"He's more interested in dollars and cents problems than I am. I've broken new ground."

An SEC spokesman confirms the distinction.

"You've got this whole new shift," he says, "toward 'corporate responsibility.' People contend that corporations should do business in such a way as to promote civil rights or protect the environment—not just to augment profits.

"It's hard to rule that these proposals aren't relevant. Usually, they're made both to promote a cause—which isn't suitable in a shareholder proposal—and to redirect the corporate business, as a proper thing for the corporation to do."

Oddly enough, these potshots at corporate management are being financed, in part, with corporate profits.

Biggest backer of Mr. Moore's Project on Corporate Responsibility is the Stern Foundation. It gave \$30,000 to help launch the project last year, and another \$30,000 in 1971. It was founded by Mrs. Edgar B. Stern, daughter of Julius Rosenwald, former board chairman of Sears, Roebuck & Co. The Field Foundation gave \$15,000.

"That's the bulk of the \$90,000 we've been given," a spokesman for the group says. "The other \$15,000

Evelyn Y. Davis speaks up at the Communications Satellite Corp.'s annual meeting in Washington. Mrs. Davis, who proposed putting a ceiling on Comsat gifts to nonprofit organizations, was a colorful figure at such gatherings well before the advent of the new breed of corporate gadfly.

The New Proxy Warfare *continued*

came from individuals, in small amounts."

Mr. Shields is supported partly by income from a trust fund of which, he says, he is the sole income beneficiary.

The Medical Committee for Human Rights has a budget of $70,000 a year, "but no support from foundations," says Dr. Young.

"However," he adds, "our Washington law firm, Covington & Burling, has not dunned us for legal fees. We've only paid hard costs, like printing."

How long will it last?

Is this a long-term campaign that's being waged, or merely a brief skirmish?

The Securities and Exchange Commission's General Counsel Philip A. Loomis Jr. advises businessmen not to take it lightly.

"These new stockholder proposals," he says, "are a symbol of things the corporations should be concerned about—corporate responsibility, civil rights, ecology.

"The shareholder proposals may peter out. But these other public concerns won't just dry up and blow away."

One business executive, worried about the outlook, cites a report by Georgeson & Co., New York investor relations consultants.

Few stockholders, it noted, have backed these clarion calls for corporate crusades.

However, it added, "the publicity has brought them attention far beyond the votes they have won. As a result, there has been more pressure on corporations from the general public, the educational community and—to a lesser degree—some government officials than there has been from . . . stockholders."

Indeed, publicity and public pressure are what GM's critics count on—not other stockholders' votes—to bring the giant to heel.

"Careful research—including some corporate muckracking—solid argument and a colorful presentation," says the Project on Corporate Responsibility, "might make an impact both on the company directors and on the public through press coverage."

One potent part of the public not overlooked is the institutional investors.

The Social Criteria for Investments Committee of the Episcopal Church in the U. S. mailed its proposals—served on GM, American Metal Climax Inc., and Kennecott Copper Corp.—to all these big owners of corporate stock.

"We did it," says Robert Potter, Wall Street corporate lawyer and committee chairman, "as an information and educational program."

The committee spent about $11,500, its public affairs officer says, on those mailings and on mailings to all Episcopal clergymen.

Other churches are becoming more deeply concerned with what are described as "the moral and ethical dimensions of investment."

This spring, the United Church of Christ and the United Presbyterian Church led a thumpingly unsuccessful proxy fight to halt Gulf Oil Corp. operations in Angola, the Portuguese-controlled territory in West Africa.

"I am convinced that the churches, together with educational institutions and foundations, will be giving more weight to the social implications of corporate decisions as they review their portfolios," says Horace E. Gale, treasurer, American Baptist Home Mission Societies.

The Project on Corporate Responsibility announced it would concentrate on winning over institutional investors. It was at least partly successful in finding recruits there.

The First Pennsylvania Banking and Trust Co. voted GM shares in its trust department (those on which it had sole voting rights) for one of the group's proposals: To require GM to publish details in the annual report of its minority hiring, pollution and auto safety activity.

GM, successfully opposing the proposal, said: "There is hardly any industry—or any corporation—that is more studied, commented upon publicly and discussed than the automobile industry in general and General Motors in particular."

Such "campaigns aren't really meant to win over stockholders," one executive says. "They're designed to mold public opinion."

Some feel that strategy will work.

Daniel P. Moynihan, former White House adviser, is one.

Speaking at New York University's Graduate Business Center, he cited Washington's clamping of a whole catalog of regulations on the auto industry following clamor about the safety of autos.

Mr. Moynihan said he believes that "more, not fewer, changes will be directed to business by intellectuals and that these will be well received by the public." The outcome, he said, will be "greater degrees of government regulation" and a continued "socialization" of the free enterprise system.

"The economic consequences of government regulation," he warned, "will be a significantly lowered level of efficiency for American industry." In the coming decades, he added, "one would predict that we will not do especially well [in world markets], and that governmental regulations will contribute to this weak performance."

SEC will see

Obviously, business can't count on the Securities and Exchange Commission to avert the disaster Mr. Moynihan foresees.

"If the Supreme Court upholds the Dow decision," says SEC General Counsel Loomis, "we'll have to see what rule is practical for us to follow.

"When the company and a stockholder disagree over a proposal, the appellate court seems to contemplate adversary proceedings by both parties before the Commission. We don't have the resources to cope with that."

He glances out the window of his office toward the Capitol, a few blocks away.

"The Commission could go a long way to make it harder for stockholders to put in proposals," he says. "But it's an issue of such importance that Congress should rule."

At least one member wants Congress to do just that.

Sen. Edmund Muskie (D.-Me.), the Presidential hopeful, has a bill that would wipe out the ban on proposals that promote political, social, racial, religious or like causes.

That could open the floodgates.

END

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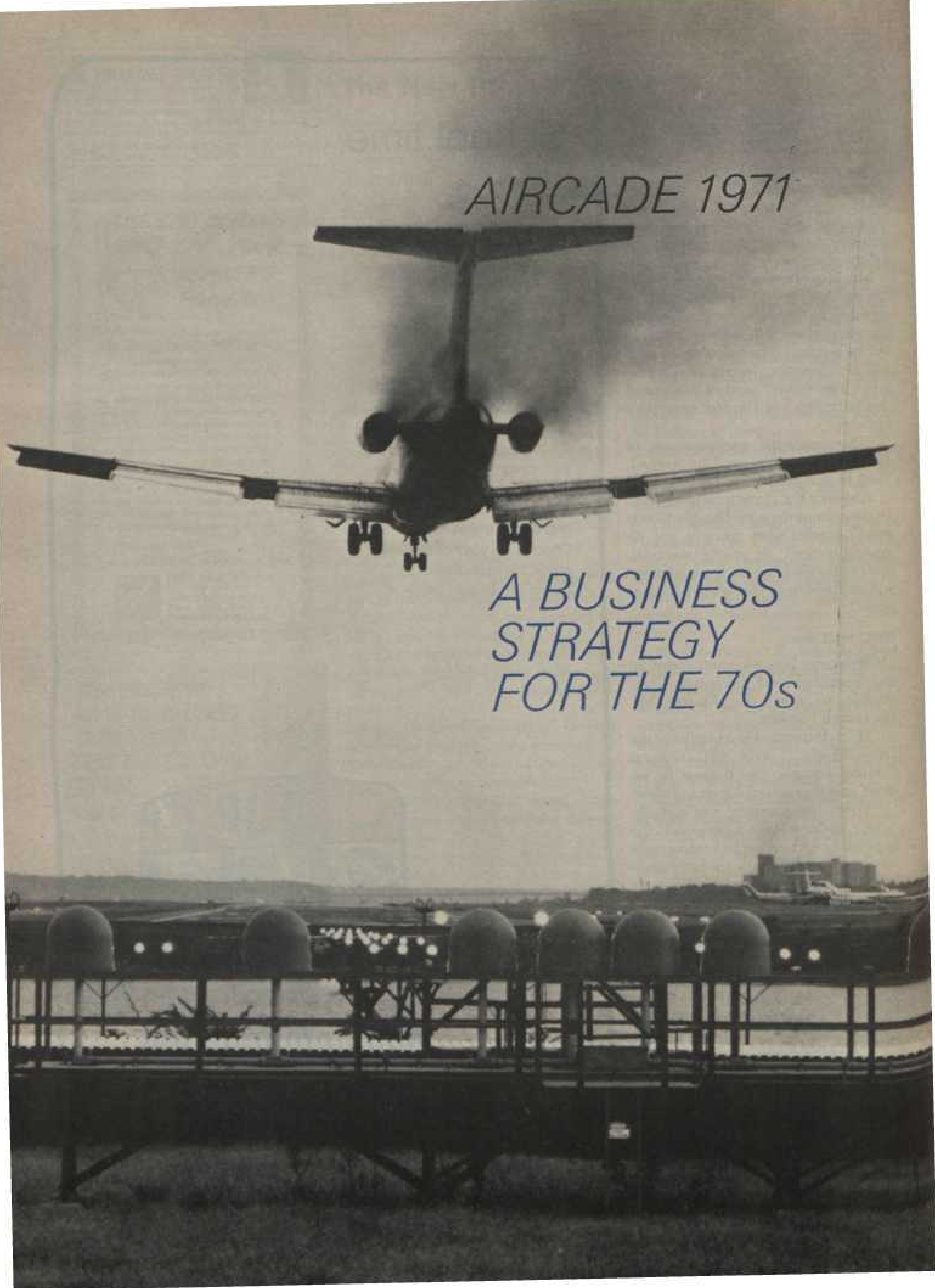

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What Next for the Dollar?

The monetary turmoil of the past few months was just the start of a long series of changes.

As the adjustment process goes on, a further decline in the U. S. dollar's international value and prestige can be expected. It will hamper world trade, investment and travel, and it may affect what you decide to do with your money here at home.

The hard facts are these:

- Inflation is on a worsening trend everywhere—abating only a little when governments take harsh measures that they don't dare to continue.
- This will lead to more and bigger changes in exchange rates between nations, as some kinds of currency seem better than others.
- Eventually, it is apt to cast doubt on the true value of all paper money, causing gold to rise in value.
- World trade will be jarred by the uncertainty, clouding business prospects within each country.

All this is at variance with what you are apt to hear from official sources. So were forecasts of monetary trouble that you read in these pages last year. The reason is not that officials don't see the troubles ahead, but that they are duty-bound to deny what they see.

However, by talking with enough of the men who direct the major nations' monetary policies, and pinpointing contradictions and noting omissions in their remarks, it is possible to come pretty close to the fundamental truth. So the outlook given above really is an official one—stripped of pretense.

Even the more optimistic officials and international monetary experts surround their answers with ifs.

The system can get through without a major shake-up, they say, *if* the U. S. succeeds in keeping budget deficits close to the White House estimates and in substantially reducing inflation; and also *if* other countries get their business cycles in step with each other and find a way to avoid big differences in interest rates.

But few impartial observers feel these ifs have much chance of coming true. The U. S. budget deficit will seriously exceed Presidential forecasts, they say, and U. S. inflation will be heading up again before 1971 is out. There is no hard idea on how to keep interest rates level among the various nations, they add, and so on.

A sorry answer

The Western world, led by the U. S., has just been given an answer to a basic economic question of the last two decades:

Has society reached the point where man can rationally create paper money not tied to gold or any other metal without the excesses which governments used to commit?

The answer has been a loud and clear No.

Governments have learned to *talk* rationally, to vow that they will protect the value of everyone's buying power. But they lack real ability to resist overspending. Each new dawn brings a new reason why this or that project must be justified. Each project may be all right in itself but the total always adds up to more than 100 per cent of the amount of pork in the barrel.

Don't think this is just a Washington trait. Other countries are every bit as compulsive at promoting price spirals. When they say that the U. S. "exported inflation" to them they omit to add that they scrambled to get it. Their airlines and tourist departments advertise frantically, their economic ministries clamor for U. S. investments, their factories work endlessly to sell goods to America—all for the purpose of sucking in dollars that they later condemn as inflationary. And their governments spur these efforts on, because, as in the U. S., the conviction of each politician is: Avoid unemployment at all cost.

Along with politicians, the leaders of labor unions must react in the same way—demanding more, more and more, even when they see that more is becoming a sickness. If they try to preach moderation, they will be voted out and become jobless heroes. For that matter, many a corporate executive feels equally compelled to work for growth, even if it undermines stability.

Inflation—once it has started and given everyone the habit of clutching for more—cannot be phased out in a smooth way.

That point is the one that best illuminates the future of our money. When a NATION'S BUSINESS article last year predicted big monetary changes were coming, it was stressed that devaluations or other adjustments would not in themselves be good or bad for business. The whole outcome would depend on whether the adjustments went *smoothly*, so as not to disturb business confidence and the pace of investment.

Now it appears that the adjustments will not go smoothly. Cooperation among governments has sagged. This seems to foreshadow a loss of business momentum.

A time of confusion

The months we are living through are some of the most confused, the most beset by crosscurrents, in the history of money and business.

On one hand, there are plus signs all around us: A wealthy U. S. population with lots of unspent cash in savings banks and many new families forming. An eager Asia emerging from the worst phases of war, anxious to trade with the rest of the world. And a Europe that finally seems ready to merge more of its nations, promising another burst of investment and growth such as came after the original Common Market was formed in 1957.

All of this should add up to a surge in opportunities open to companies and investors—except that money, the name of the game, has fallen into disrepute.

The measure of value that the world was depending on, our dollar, has become controversial, rather than reliable. No nation knows how much its trade earnings or the reserves in its central bank are really worth.

A country like Switzerland, with most of its reserves in gold, is thought to be much sounder than one whose treasury is stuffed with many billions of dollars.

When nations are in such a fix, their citizens and corporations eventually find themselves in a similar fix. How much are the European assets of Chrysler or Dow Chemical really worth, or the American assets of Olivetti or Pechiney? And their debts—the money that American firms owe to Europe's banks and bondholders: How much real buying power do they represent?

It is as though a prosperous community finds that the town's main bank has overambitious officers who push their growth plans by constantly enlarging all the numbers—inflating the size of everyone's deposits and everyone's loans. The citizens acquiesce in this, beguiled by the boominess of it all. But after some years, how does anyone know where he stands? Or where he is going to stand next year?

People would do a lot of jerky speculating—grabbing for things they thought were hedges against the inflating numbers, sometimes hastily paying off loans when they thought it was the moment to get in ahead of the computer's next big leap.

But company heads would not plan new factories with their former confidence. They would not take on as many young graduates to be trained

for the future. A numbing caution would creep in. Like drivers approaching a dimly-lit tunnel, everyone would slow down.

So it is with the world community right now. There is every reason for more investing, more trade between nations, more expectation of growth. But that one cause for hesitation—unsure money—seems likely to have a shackling effect.

Bolstering the dollar

"There is nothing wrong with the dollar that a dose of realism would not cure," is the typical comment of a European banker.

The dollar is still the linchpin of all world currencies, even if it has wobbled. All it needs is to be driven down into firmer ground.

It is unrealistically valued in two ways:

• First, in relation to the currencies of most other major countries. They have had inflation, too. But they have not poured out such sums for military purposes, nor have they sent so much abroad for investment and tourism.

The dollar's value has been somewhat diminished by the oversupply.

How much is it overvalued? No two economists agree. But few go as far as a member of the President's Council of Economic Advisers who once said that perhaps its value should be cut by as much as 22 per cent in relation to other currencies.

The other nations would not voluntarily stand for that, anyway, because it would then be much harder for them to sell to us and to compete with us in other markets.

• Second, the dollar has been badly overvalued in relation to gold. The attempt to keep just one kind of metal at a 1933 price, while other goods are inflating, has failed.

Governments have pretended that the free market price of gold was one thing, while the official price was another. But in the end, value is value.

If the free market is saying it takes more than 35 dollars to buy an ounce of gold, then governments' actions ultimately reflect that.

Gold—at the unrealistic $35 price—was better money than our paper. It was also better money than the International Monetary Fund's Special Drawing Rights ("paper gold"), which are tied to the dollar's value.

As a result, governments have tried to hold gold and pass dollars or SDR's along in settlement of their debts. So while publicly proclaiming confidence in paper money, they privately act as though gold is more desirable.

How much has the dollar been overvalued in relation to gold? Here the controversy takes off like a rocket. Some now say that even doubling the gold price to $70 would be inadequate.

The foreign vice president of a major U. S. bank whispers confidentially, "A move to $140 an ounce for gold is the only one that would put the dollar anywhere near a position to meet its obligations." (It would turn our $10 billion gold hoard into $40 billion—almost equal to the officially given total of short-term foreign claims against us.)

But this view is extreme. Since all the claims against the dollar are never going to be presented at once, because people abroad need dollars to trade with, the U. S. isn't forced to have a gold reserve anywhere near as large as the amount of potential claims.

Many U. S. authorities still insist we need no gold reserve at all. In a showdown, they say, we should "demonetize" gold by simply saying there is no official price at which we will exchange dollars for gold. That would make the free market price the only one.

But most leading central bankers abroad want a firm anchor. They prefer to know that the gold in their reserves has a set value. More and more of them now favor a substantial increase in the gold price. That, they believe, would put gold, the dollar and SDR's in a sensible price relationship to each other—making them all more useful as liquid assets for expanding trade.

When, what and where

If properly done, they say, it would revive the dollar's prestige and make a new period of business growth possible.

It seems likely that most of the following events will happen before 18 months have passed:

• More foreign currencies will undergo waves of speculation, with funds flowing swiftly out of one country and into another.

• The leading governments will announce concerted moves to discourage such flows—more restrictions on the types of accounts that foreigners can have in each other's countries, more requirements for reporting what is done with such money, and elimination of interest rates and other incentives that attract money across borders. These moves will be rather ineffective, because governments can't be too restrictive without pinching off normal business, doing more harm than good.

• International Monetary Fund rules will be changed—within the next half year—to permit wider fluctuations in exchange rates and "floating" adjustments when one currency gets too far out of line.

• The Japanese yen will be revalued upward, probably by about 10 per cent.

• The buildup of U. S. dollars in foreign treasuries will not ease fast enough to calm the foreign governments, which find this money inflationary in their own economies and which are afraid of being caught with too many depreciating dollars.

• The U. S. will try to relieve some of this pressure by taking back some dollars and giving foreigners long-term promissory notes in *their* currency—in francs to the Swiss, in marks to the Germans, etc.—thus insuring them against loss if the dollar is devalued.

• Foreign governments will also continue to press the U. S. to give them gold in exchange for some of their dollars. These nibbles will push the U. S. gold supply down to levels lower than it has been in 40 years or more. In relation to the size of our economy and our obligations, this will be far lower than ever before in our modern history.

• The President will finally exercise his right to halt the exchange of gold for dollars. He will deny that this represents a devaluation of our dollar, insisting that gold is not the true measure of value, that the U. S. dollar—backed by our great industry—is what really counts.

The free market price of gold will rise and fall sporadically as some peo-

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ple take profits and others try to get back in.

• An emergency international monetary conference will be called to set up a new system for controlling exchange rates. In the end, a system not very different from the old one will be established—there merely will be new sets of numbers next to each currency and a little more flexibility in permitting those numbers to fluctuate.

The U. S. dollar will be 10 to 15 per cent lower in value relative to the strongest currencies—Japanese, German, Swiss, Dutch, Belgian, French, Italian.

And all will be quite a lot lower in value relative to gold. The long determination not to "reward speculators" by raising the gold price will be pooh-poohed on the grounds that the alternative would have been to keep rewarding an even greater number of speculators who were dealing in currencies, rather than gold.

Walking the tightrope

The really important decision will be how to run the U. S. economy after this monetary step has been taken. There will be much talk of belt-tightening and sound money management, so that the changes may be the foundation for a new stability. But there will also be the temptation to start the easy game of spending and stimulating all over again. And any government trying to walk this tightrope successfully will have to lean against the prevailing winds of inflation every step of the way.

Buying foreign currencies, or putting money into Swiss and other foreign bank accounts, before the next monetary change comes is often recommended for individual investors and companies.

True, this can be a way of coming out with a gain, if you select the kind of currency that will go up in relation to the dollar. But bear in mind that it means tying up money for a time, often at a lower return than you would earn here. Also, since it costs something to buy and sell currency, the net gain will be less than it first seems.

Getting in on the gold rise, on the other hand, can be practical for more people.

Since U. S. citizens cannot legally buy gold bullion, many are putting part of their money into sound gold mine stocks, particularly some of the South African ones with proven profitability and long life expectancies.

A surprising number of Americans are also investing in old gold coins. Those who are not numismatists, and can't judge how much premium to pay for scarcity value, buy coins priced close to the intrinsic worth of their metal content, such as British gold sovereigns.

Such hedges should be undertaken only after careful study and only with a part of one's capital—never on an all-or-nothing basis. They are an attempt to insure against catastrophe; they are not a rounded financial program.

Sticking to what you know

The fact is that sound investments in business and property of a kind that you know about—the fields you are expert in—are probably best in the long run, despite the turbulence we will pass through.

You need to know what's happening globally, to understand the causes of trouble. But the only direct action that most individuals and companies should take to meet the monetary uncertainty is to exercise a little extra caution.

Based on what the world situation is telling us, this is a time to avoid being overextended—a time when companies are better off with too little capacity rather than too much, and a time when individuals are safer with too few investments than with too many.

It is a good time to hold a substantial reserve of Treasury bills, savings certificates, or other high-yielding assets that are immediately usable.

Does this sound odd in the face of a probable devaluation? Bear in mind that people holding these devalued dollars may get bargains with them in the U. S., despite their reduced worth abroad. If there is a temporary shake-up in the pattern of business growth and in the stock market, the man who can afford to buy and keep when others can't or won't do it is one who will see his holdings expand later in the 1970s.

—CHARLES A. CERAMI

Symptoms of a Sick Management

"Even in a recession, profit performance is the best thermometer for judging management health."

So says executive recruiter Edmund R. Hergenrather, of Hergenrather, Gibson, Hanrahan & Associates, Los Angeles. Heads of three other top executive search firms agree. When a company is not doing at least as well as its industry, they say, management probably is sick.

All four recruiters—in addition to Mr. Hergenrather they are William M. Brennan of Brennan Associates, Inc., Bridgford Hunt of The Hunt Co., and Jack Lawrence of Jack Lawrence & Co., Inc., all of New York—have individual ideas on other management sickness symptoms. All the symptoms they point to, however, fall into six categories.

These recruiters say you can size up a company's management by looking at, 1, executive attitude and turnover, 2, executive compensation, 3, management goals, 4, the pace of company change, 5, top management's angle of focus, and, 6, executive advancement.

What follows is an exchange of their views, in their own words.

William M. Brennan specifically cites these symptoms of sick management:

1. *A proxy fight shaping up.*
2. *Static product line.*
3. *Chronic low pay for executives.*
4. *Too many bugs in new projects.*
5. *A high percentage of executives looking for new positions.*
6. *A high level of finished product inventory or accounts receivable.*

1. Look at executive attitude and turnover.

When executives of a company are too readily available for new opportunities, something is definitely amiss, say the recruiters.

Mr. Hergenrather: "It shakes you up when something like this happens: In connection with a job you are filling, you call a company for information on an executive who formerly worked there. Instead of giving you an evaluation of the man, executives you talk to throw their own hats in the ring. You know something is wrong—particularly when the chief executive himself says he is interested."

Mr. Hunt: "Widespread executive discontent, extending over a period of time, is a danger sign. Some griping is normal, but when bellyaching turns to an attitude of 'Why fight it?' it's very significant."

Mr. Brennan: "A flood of resumés out of a company is a reliable early warning signal. Take the chemical industry. When you get 20 or 30 resumés from vice presidents, division managers, marketing directors, research directors in a major company, you know something's wrong. You don't find large companies replacing men like that unless there's a severe problem. The same holds true if the men are bailing out.

"An example is Allied Chemical. When Jack Connor, former Secretary of Commerce, took charge, he replaced many of those responsible for much of the former policy. This executive turnover was an obvious tip-off of a major change in direction, and you don't make changes like that unless something's wrong."

Mr. Hunt: "One-man rule is very often the cause of poor executive attitudes and high turnover. Usually, you find the one-man rule sickness in smaller companies—companies with $50 million or less in sales. Executives are too busy defending themselves, covering their tracks, to be effective. They're afraid to make decisions—and don't think that doesn't cause discontent!

"In a troubled situation, the sickness becomes worse. A strong boss pulls in the reins to get control, and this produces results. With such evidence that he is doing the right thing, he tightens his personal control further—and kills everyone else's initiative. He is surrounded by shaken men. They can't make decisions; they don't get any practice, and they've lost confidence in themselves. In a company like that, if the boss gets hit by a bus, literally no one is able to take charge.

DRAWINGS: CHARLES A. DUNN

Jack Lawrence cites these symptoms of sick management:

1. *Long-term emphasis on a single management function.*
2. *A board that is superannuated or provincial.*
3. *An organization structure that has not changed.*
4. *No age differential among executives.*
5. *Absence of a corporate purpose.*
6. *Lack of management guts in achieving a stated purpose.*
7. *One-man rule.*

"When a man builds a business himself, he has to know when to relinquish personal control. If he does it too soon, he loses his company. If he waits too long, he kills the management."

2. Look at executive compensation.

A low level of executive pay is a symptom that if the management isn't sick now, it soon may be, the recruiters say. Equally significant as a symptom is an executive pay policy that is highly structured and inflexible, or, alternately, based on presidential whim.

Mr. Brennan: "Fast-moving companies that are leading the pack almost always pay their executives better than other companies do. These companies are smart enough to pay more than the market when recruiting at the college level, and to keep their best men loyal by compensating them well with salary, bonuses, stock options, cars and so on.

"It's very difficult to recruit men from GM or Ford because of the golden handcuffs they use.

"Now, you can take a mediocre man, raise his salary 20 per cent, and still have a mediocre man. But I'm talking about companies that spend money in the first place to attract the best people, and then pay them well to keep them."

Mr. Hunt: "When you see a highly structured, inflexible executive compensation plan, you know it's a management cop-out. It frees the boss from the distasteful task of telling a man he's not getting a bonus because he doesn't deserve one. Nothing upsets the troops more than when a bonus is given without being deserved. If you reward good work, you'll get more good work; if you reward mediocrity, you'll get more mediocrity."

Mr. Hergenrather: "When several executives in a given company express interest in new opportunities, we commonly find that it's because the company has lousy compensation and incentive policies. Maybe it's because the 'old man' thinks his boys should be paid on a par with what he earned in their position some years ago.

"An executive may have loyalty to his company, and affection for the leadership, but for the sake of his career and his family he'll reluctantly break away for a better paying position. Too much of that and you've got a management that's not just sick, it's dead.

"I'm thinking of one large company that had a bad year, though several operating units and subsidiaries were profitable and kept the over-all financial picture from being disastrous. Nevertheless, no one was recognized with a bonus for outstanding services. This lack of deserved reward, plus depressed prices for the company's stock which made options worthless, caused many good men to want out."

Mr. Hunt: "Equally significant is the situation in which compensation practices are determined by an autocrat—where people closest to the president get the biggest slice of the pie or where bonuses are handed out for political reasons. Sometimes the president, or whoever has the power to determine executive compensation, doesn't take the trouble to find out who, beyond his own circle of direct contacts, is doing an outstanding job."

3. Look at management goals.

The recruiters point out that the nature of the goals a management sets is a clue to the state of management health.

Mr. Lawrence: "Absence of a corporate purpose is a definite symptom of management anemia. Whether the purpose is to be number two or number one—or to be a factor in an expanding business, or to balance the ratio between government and commercial business like North

Edmund R. Hergenrather notes these symptoms of sick management:

1. *Poor profit results.*
2. *Expressed lack of confidence by managers in their leaders.*
3. *Managerial gripes about compensation policies.*
4. *When a company hires "executive bargains."*
5. *When a company undertakes "window dressing" public relations.*
6. *When the chief executive is impossible to reach or always is in a panic.*
7. *Executives too receptive to job feelers.*
8. *Company no longer recognized as important by its competitors.*
9. *Aging management consistently going outside the firm for replacements.*

Bridgford Hunt emphasizes these as symptoms of sick management:

1. *No new products.*
2. *Across-the-board cost cutting.*
3. *One-man rule.*
4. *All executive hiring from outside, or all promotion from within.*
5. *An executive compensation plan that is too highly structured—or not structured at all.*
6. *Suspension of research and development, or other "future investment." costs.*
7. *Chopping out full departments.*
8. *Open management discontent.*
9. *Poor internal communications.*

American Rockwell is doing—a healthy company has a healthy purpose.

"Some companies have no purpose at all. For a number of years, Ingersoll Rand did not have a written set of corporate objectives.

"A symptom almost as bad as lack of corporate purpose is lack of guts to take incisive action toward achieving management's stated purpose—a failure to reach out, think big and take purposeful, calculated risks."

Mr. Brennan: "The wrong kind of management goals force lower levels of management to take the wrong action.

"You often can find a symptom of sickness when you look at a company's finished product inventory figures and its accounts receivable. A company that is force-feeding its market with overproduction is merely postponing its day of reckoning.

"Let me give you an example. A friend of mine worked for a big company in Jersey City. Management had set unrealistic monthly sales goals. Consequently, at the end of each month there was a big push to get the product out the door. They would lease hundreds of extra boxcars for this end-of-the-month push. The cars might stay on a siding for weeks, but as long as the product had moved out of the plant, the figures that were passed up to management looked good.

"This was just running up needless costs, and management was being kidded. The real fault was that management had set unrealistic goals.

"Here's another example: A farm equipment com-

pany went from a $30 million profit in '69 to a $20 million loss in '70. The company had been postponing the inevitable for several years. What it had been doing in the face of declining sales was overloading its distribution pipelines and forcing dealers to load up inventory on their own back lots. Finally, the pipelines clogged and the company went from profit to loss almost overnight.

"Ordinarily, this kind of management sickness happens in a company dominated by a chief executive who has come up the ladder through the production side. You usually can see the problem coming if you read annual reports carefully.

"While you're at it, check the accounts receivable—to find out whether the company is just dumping its product on customers and worrying about collecting later."

Mr. Hergenrather: "There's another symptom that a company's goals are not all they should be. It's when you see the company undertaking a heavy 'window dressing' public relations program, especially in the financial area, with nothing to back it up. PR based on substance is great, but when it's based on hot air, it's a signal that management is in trouble.

"A West Coast company—newly formed, well financed—recently launched a flashy PR program. The company's management is creative, but it's inexperienced at the top. Even with strong financial backing, the company is on the brink of dissolution; nearly all its key executives have bailed out. To me, the first signal of trouble was the PR smoke screen."

4. Look at the pace of company change.

There's a healthy rate of change for every company. On that the recruiters agree. If the company is changing too slowly, they say, it could face trouble. And drastic or erratic change, not in keeping with conditions or in tune with the times, could be an equally important symptom of sickness.

Mr. Hunt: "Any company that doesn't come out with new products is sick, or going to be sick. I'm talking about service companies that fail to find new wrinkles for their services as much as I'm talking about companies producing hardware. New applications for old products—this is important for any business.

"Take the textile industry. Any management that's pushing white shirts these days has got to be sick. Some textile companies have stuck to the old tried and true lines, and they're starving. Companies that have moved over to the knitwear business have kept their competitive strength."

Mr. Lawrence: "Failure to change organization structure as conditions change is a definite symptom. It's amazing how many companies have outgrown the simple president-vice presidents-type organization but fail to appoint an executive vice president or group vice president. It's amazing how often a company is too proud to change its organization structure to resemble that of a more successful company in its industry.

Excessive executive turnover

"Then there are the companies that change their organization so frequently that people lose track of to whom they report.

"General Foods has done a good job of keeping its organization structure vital. Ingersoll Rand has done a good job. American Standard has been revitalizing its organization structure but still has a long way to go. So does Allied Chemical. ITT is a good example of how organization can be positively changed as the company changes.

"North American Rockwell just went through a massive organization change which signals its health. Xerox is being forced to change its organization structure because of its growth and future plans."

Mr. Hergenrather: "Competitors will often reflect whether management's goals are sound. When strong competitors in a given industry fail to mention a company as a serious contender, it's a dead giveaway that something is wrong—particularly if the company has a good reputation for past accomplishments. Anytime your competitors don't recognize you as a leader or at least a worthy opponent, you know your management has slipped."

Mr. Brennan: "It's a rare company that can survive—regardless of how successful its old products are—without a constant flow of really new ideas. I'm not talking about dressing up old ideas, but about a new product—like taking an outboard-type engine, combining it with rubber tracks, a plastic body and a couple of skis and creating something that goes like hell. That product wasn't around a couple of years ago, but it's a new industry now.

"Up until World War II, one big company was really a strong factor in the soap business. But it showed a lack of decisiveness in moving with the synthetic de-

tergents. It hung back due to lack of money, lack of dedication or whatever it was, and never caught up."

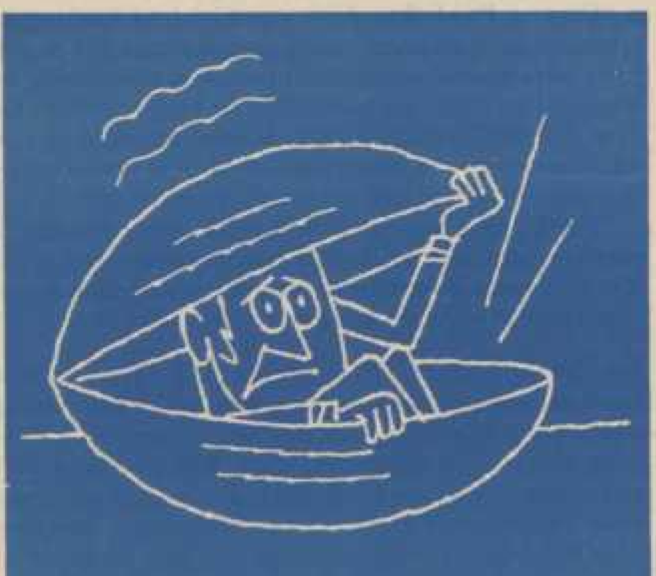
5. Look at top management's angle of focus.

Any kind of blind spot in management vision is a symptom of sickness. No management can survive, the recruiters indicate, with blinders on.

Mr. Hergenrather: "A company sometimes tips its hand concerning its lack of vision when it hires what I call an 'executive bargain'—a man available at a price below the market. I won't say there are no good executive bargains, but there are very few. If the product is marked down, you had better find out why.

"Companies that hire executive bargains aren't building management, they're just filling jobs. You don't stay healthy by taking on a man who is not acquainted with a company's history or its products, who isn't right for a job.

"I'm thinking of one company that needed a new president. They brought in a very attractive, young financial guy, extremely able in his field but with no experience whatever as a general manager. This was a troubled company, multidivision, losing its shirt. The new president fell flat on his face. It was inevitable. He would have been very happy and successful in a financial spot. It's kind of tragic. He has a stain on his career, and the company is in worse trouble now than before."



Management in panic

Mr. Hunt: "You can usually tell that a management is suffering from limited vision when it makes across-the-board cost cuts—you know what I mean, 10 per cent out of everybody's budget. It's an indication that management thinks all products, all divisions, all components of the business are contributing equally. It shows a failure to recognize that even in bad times, one product or division may actually warrant budget increases while the others are being cut.

"Take a company in the textile industry; let's say it's in both knitwear and broadlooms. In the current market, knitwear is growing while broadlooms are going rapidly downhill. If that company cuts costs equally in both areas, it's destroying itself. The cuts should be made disproportionately. Obvious as this sounds, it's amazing how many top executives use the old meat ax approach."

Mr. Brennan: "If a management has a record of starting unsuccessful programs, that certainly is an indication of limited vision. I'm not talking about new technology or pioneering new ideas where you anticipate a degree of failure. I'm talking about conventional things that should produce a predictable result, but don't."

Mr. Lawrence: "Recurring or long-term emphasis on a single management function, at the expense of other management functions, is a sign of trouble or potential trouble. Some companies have managements that are almost wholly financially oriented. Others have managements dominated by marketers, and others are dominated by engineers. General Motors is an example of a top management group with a good cross section of functional experience.

"Now, there may be a reason why a company stresses one function of management. IBM is a highly successful company because it is marketing dominated. But this kind of a situation can be a negative if other functions of management suffer as a result."

Mr. Hergenrather: "You have a symptom of management sickness when the chief executive, or any key executive, is impossible to reach or in a constant state of panic. He doesn't have time to talk with the people who are really keeping the company afloat.

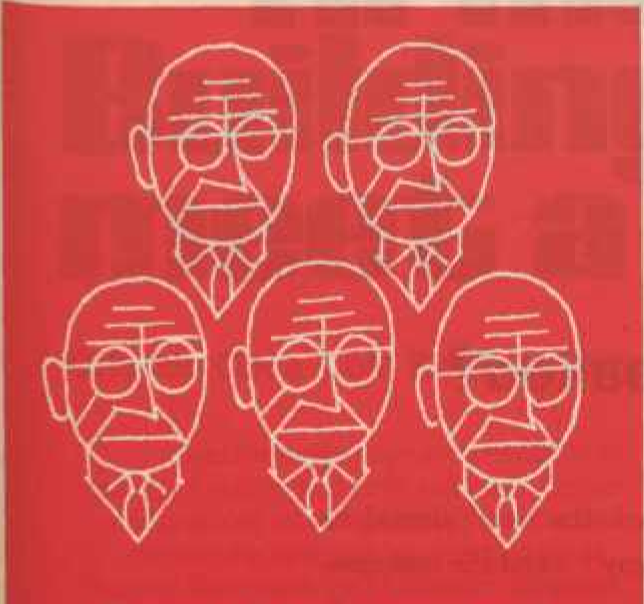
"Let me give you an example—a well known computer software company. The chief executive had become extremely wealthy from the fast growth of the company and the increased value of its stock. Because of his wealth and success, he became increasingly involved in personal hobbies, and was nearly impossible to reach. As a result, in 1969–70, the company fell into a position of heavy losses.

"Only through the genius of a financial vice president and a recently appointed president has the company been saved."

Mr. Hunt: "When you see a company using dollars for short-term ends at the expense of long-term goals, that's a symptom of the short-vision sickness. For example, you'll see a company cut out all research and development, or deferral maintenance. They are playing a numbers game."

Mr. Lawrence: "Look at the company's board of directors. If it's superannuated or provincial in makeup, you usually can guess that the company has limited vision.

"A healthy board has a good mix in terms of age—maybe men down into their 30s—and also in terms of



Directors all from the same mold

geographic representation. It is unlikely that a company whose board members all come from the Midwest, or the South or from Texas, is going to have the broad, national or international perspective usually necessary for corporate success these days. Many national companies with headquarters in New York have boards that lack representation from the West Coast, for example, even though a major share of their business may be in the West. It's a definite weakness."

Mr. Hunt: "When I see poor internal communications in a company, that tells me management's angle of focus is limited. You go into a company and find the sales department doesn't know the production department has a new wrinkle in the flange. That's a red flag! If you look further, you usually find nobody knows what's going on—there's a block in communications.

"Maybe information flows from the top down, or maybe from the bottom up, or maybe horizontally, but unless management has made certain that information is flowing smoothly in all directions, the company is in as much danger as a man with a blood clot in his bloodstream."

6. Look at executive advancement.

A company weakens its health, according to the recruiters, when management vacancies are always filled from the outside—or always by promotion from within. Companies with the strongest managements maintain a balance between recruiting and promotion.

Mr. Hergenrather: "To go outside occasionally for a key man is one thing, but to go outside consistently to replace your senior people is another. It's a symptom of sick management when you see a company's top managers slipping into their 50s and 60s together and doing a lot of recruiting to find the replacements they should have been developing themselves through the years.

"There are many good reasons why a company may want to go outside to fill a job. But when it always goes outside, executives in the company are demoralized and the usual result is management weakness."

Mr. Hunt: "Exclusive promotion from within is as bad as exclusive outside recruiting. Du Pont, for example, wants all its people to come up through the ranks. GE, GM and AT&T have the same philosophy. I believe they lose the value of management cross-pollination."

Mr. Lawrence: "I question the health of a company's management when there is no age differential among the senior executives, particularly when they are all older men. As with a board, there should be a good age mix in the management group.

"As a management team grows older, it becomes less risk-taking, and the ability to take risks is a sign of healthy management."

Mr. Hunt: "I think it is well to point out that none of these symptoms is necessarily meaningful in itself. When a doctor examines his patient, he looks for a combination of symptoms in diagnosing illness. The same should apply in diagnosing sick management.

"Every company suffers individual symptoms of sickness at one time or another, but it's the combination of symptoms or the persistence of a single symptom that is the true indication of sickness." END

REPRINTS *of "Symptoms of a Sick Management" may be obtained from Nation's Business, 1615 H St. N. W., Washington, D. C. 20006. Price: one to 49 copies, 35 cents each; 50 to 99, 30 cents each; 100 to 999, 17 cents each; 1,000 or more, 14 cents each. Please enclose remittance with order.*

No corporate purpose

Editorial

Want to Get Soaked?

Maybe the old expression "soak the rich" should be replaced by "soak the average guy"—and the businessman, too, of course.

If you're an employee making $10,200 or more a year, the new Social Security bill in Congress would raise your payroll tax another $145.20 next year. And your employer would have to pay that much more for you, too.

The extra tax would help pay for big new benefits in the same bill. Furthermore, benefits would go up automatically with the cost of living. Those raises would be paid for by taxes on more and more of your income (with your employer matching the increases, of course).

As projected now, you'd each be paying $1,043.40 by 1980.

One of the dictionary definitions of "soak" seems just right:

"To drain or exhaust; to suck dry."

Continental income insurance looks after the office, too

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